Unconsolidated Annual Report of Polski Koncern Naftowy ORLEN SPÓŁKA AKCYJNA for the year 2010

March 2011

UNCONSOLIDATED ANNUAL REPORT FOR THE YEAR 2010 INCLUDES:

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POLISH FINANCIAL SUPERVISION AUTHORITY

Annual report R 2010

(year)

(in accordance with § 82 section 1 point 3 of the Minister of Finance Regulation of 19 February 2009 Official Journal – No. 33, item 259)
(**for issuers of securities whose business activity embraces manufacture, construction, trade and services)**

for the reporting year 2010 that is for the period from 1 January 2010 to 31 December 2010 which includes financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN).

on 31 March 2011
(submission date)

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
(full name of the issuer)

PKN ORLEN (abbreviated name of the issuer)

OIL AND GAS (industrial sector in line with classification of Warsaw Stock Exchange)

09-411 (zip code)

PŁOCK (location)

CHEMIKÓW (street)

7 (number)

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KPMG AUDYT Sp. z o.o.
(Entity authorized to conduct audit)

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	for the year ended 31/12/2010	for the year ended 31/12/2009	for the year ended 31/12/2010	for the year ended 31/12/2009
I. Sales revenues	62 215 581	47 481 278	15 536 805	11 857 276
II. Profit from operations	2 756 827	790 306	688 449	197 359
III. Profit before tax	2 826 324	1 907 812	705 805	476 429
IV. Net profit	2 357 127	1 635 885	588 634	408 522
V. Total comprehensive income	2 406 151	1 751 022	600 877	437 274
VI. Net cash provided by operating activities	3 895 427	2 806 414	972 787	700 833
VII. Net cash (used in) investing activities	(2 568 977)	(1 615 776)	(641 539)	(403 501)
VIII. Net cash provided by /(used in) financing activities	(1 881 372)	335 897	(469 826)	83 882
IX. (Decrease) / Increase in net cash and cash equivalents	(554 922)	1 526 535	(138 578)	381 214
X. Net profit and diluted net profit per share (in PLN/EUR per share)	5.51	3.82	1.38	0.96
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
XI. Non-current assets	24 663 871	23 006 696	6 227 778	5 809 332
XII. Current assets	15 230 187	14 009 655	3 845 715	3 537 524
XIII. Total assets	39 894 058	37 016 351	10 073 494	9 346 855
XIV.Long-term liabilities	8 350 861	10 368 702	2 108 644	2 618 161
XV. Short-term liabilities	12 004 148	9 514 751	3 031 121	2 402 533
XVI. Equity	19 539 049	17 132 898	4 933 730	4 326 162
XVII. Share capital	1 057 635	1 057 635	267 059	267 059
XVIII. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XIX. Book value and diluted book value per share (in PLN/EUR per share)	45.68	40.06	11.54	10.11

The above data for 2010 and 2009 were translated into EUR by the following exchange rates:

– specific positions of assets, equity and liabilities - by the average exchange rate published by the National Bank of Poland as at 31 December 2010 – 3.9603 PLN / EUR;
– specific items of statement of comprehensive income and statement of cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month during the period 1 January - 31 December 2010 – 4.0044 PLN / EUR.

UNCONCOLIDATED FINANCIAL STATEMENTS OF Polski Koncern Naftowy ORLEN SPÓŁKA AKCYJNA for the year ended 31 December 2010

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

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POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION
PREPARED AS AT 31 DECEMBER 2010
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Unconsolidated statement of financial position

	Note	as at 31/12/2010	as at 31/12/2009
ASSETS			
Non-current assets			
Property, plant and equipment	5	12 379 779	11 080 017
Intangible assets	6	383 190	128 732
Perpetual usufruct of land	7	90 812	90 209
Shares in related parties	8	11 529 773	11 333 136
Financial assets available for sale	9	40 828	32 078
Deferred tax assets	28.2	198 686	286 421
Other non-current assets	10	40 803	56 103
		24 663 871	**23 006 696**
Current assets			
Inventories	12	7 450 787	7 298 656
Trade and other receivables	13	5 853 469	4 606 935
Other short-term financial assets	14	506 067	127 925
Income tax receivable		15 568	1 105
Cash and cash equivalents	15	1 396 060	1 964 403
Non-current assets held for sale	16	**8 236**	**10 631**
		15 230 187	**14 009 655**
Total assets		**39 894 058**	**37 016 351**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	17.1	1 057 635	1 057 635
Share premium	17.3	1 227 253	1 227 253
Hedging reserve	17.5	63 874	14 850
Retained earnings	17.4	17 190 287	14 833 160
Total equity		**19 539 049**	**17 132 898**
LIABILITIES			
Long-term liabilities			
Interest-bearing loans	18	7 937 850	9 971 765
Provisions	19	363 053	348 195
Other long-term liabilities	20	49 958	48 742
		8 350 861	**10 368 702**
Short-term liabilities			
Trade and other liabilities	21	10 038 858	8 195 604
Interest-bearing loans and borrowings	18	1 164 699	547 261
Income tax liability		-	5 951
Provisions	19	512 570	471 257
Deferred income	22	64 609	67 070
Other financial liabilities	23	223 412	227 608
		12 004 148	**9 514 751**
Total liabilities		**20 355 009**	**19 883 453**
Total equity and liabilities		**39 894 058**	**37 016 351**

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Unconsolidated statement of comprehensive income

	Note	for the year ended 31/12/2010	for the year ended 31/12/2009
Income statement			
Sales revenues	24	62 215 581	47 481 278
Cost of sales	25	(57 045 562)	(44 159 182)
Gross profit on sales		**5 170 019**	**3 322 096**
Distribution expenses		(1 824 472)	(1 777 646)
General and administrative expenses		(584 243)	(626 834)
Other operating revenues	26.1	303 637	638 428
Other operating expenses	26.2	(308 114)	(765 738)
Profit from operations		**2 756 827**	**790 306**
Financial revenues	27.1	527 993	1 756 368
Financial expenses	27.2	(458 496)	(638 862)
Financial revenues and expenses		**69 497**	**1 117 506**
Profit before tax		**2 826 324**	**1 907 812**
Income tax expense	28	(469 197)	(271 927)
Net profit		**2 357 127**	**1 635 885**
Items of other comprehensive income			
Hedging instruments valuation		25 502	(3 880)
Hedging instruments settlement		35 021	146 024
Deferred tax on other comprehensive income items		(11 499)	(27 007)
		49 024	**115 137**
Total comprehensive income, net		**2 406 151**	**1 751 022**
Net profit and diluted net profit per share (in PLN per share)		5.51	3.82

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Unconsolidated statement of cash flows

	Note	for the year ended 31/12/2010	for the year ended 31/12/2009
Cash flows - operating activities			
Net profit		**2 357 127**	**1 635 885**
Adjustments for:			
Depreciaton and amortisation	25	870 517	970 265
Foreign exchange losses/(gains)		69 798	(375 987)
Interest and dividend, net		(125 937)	(291 829)
(Profit) on investing activities		(18 150)	(402 584)
Change in receivables	29	(1 397 106)	(630 638)
Change in inventories	29	(133 105)	(1 021 401)
Change in liabilities	29	2 208 249	2 738 748
Change in provisions	29	396 274	(190 181)
Income tax expense	28	469 197	271 927
Income tax (paid)/received		(413 375)	63 098
Other adjustments	29	(388 062)	39 111
Net cash provided by operating activities		**3 895 427**	**2 806 414**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(2 683 839)	(1 661 048)
Disposal of property, plant and equipment and intangible assets		218 600	449 636
Sale of shares		13 828	2 086
Acquisition of shares		(116 145)	(998 721)
Additional payments to subsidiaries' equity		(2 450)	(22 450)
Acquisition of other securities		-	(1 000)
Sale of other securities		1 000	10 000
Interest and dividends received		389 400	620 585
Repayable payments to subsidiaries' equity		(89 042)	(6 510)
Proceeds from additional repayable payments to subsidiaries' equity		11 000	17 000
Granted loans		(301 673)	(41 606)
Proceeds from repayment of loans		-	47 000
Payments to cash pool facility		(7 983)	(24 865)
Other		(1 673)	(5 883)
Net cash (used in) investing activities		**(2 568 977)**	**(1 615 776)**
Cash flows - financing activities			
Proceeds from loans received		7 319 135	3 774 315
Debt securities issued		6 574 070	6 157 478
Repayment of loans		(8 866 468)	(3 235 267)
Redemption of debt securities		(6 492 076)	(6 001 996)
Interest paid		(402 739)	(490 996)
Payment of liabilities under finance lease agreements		(2 961)	(1 211)
Outflows from cash pool facility		(10 333)	-
Proceeds from cash pool facility		-	133 574
Net cash provided by / (used in) financing activities		**(1 881 372)**	**335 897**
Net change in cash and cash equivalents		**(554 922)**	**1 526 535**
Effect of exchange rate changes		(13 421)	(5 070)
Cash and cash equivalents, beginning of the period	15	**1 964 403**	**442 938**
Cash and cash equivalents, end of the period	15	**1 396 060**	**1 964 403**

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
STATEMENT OF CHANGES IN UNCONSOLIDATED EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Statement of changes in unconsolidated equity

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
1 January 2010	2 284 888	14 850	14 833 160	17 132 898
Total comprehensive income	-	49 024	2 357 127	2 406 151
31 December 2010	**2 284 888**	**63 874**	**17 190 287**	**19 539 049**
1 January 2009	2 284 888	(100 287)	13 197 275	15 381 876
Total comprehensive income	-	115 137	1 635 885	1 751 022
31 December 2009	**2 284 888**	**14 850**	**14 833 160**	**17 132 898**

(all amounts in PLN thousand)

Accounting policies, notes and other supplementary information

1. General information

1.1. Principal activity of the Company, composition of Management Board and Supervisory Board of the Company

Polski Koncern Naftowy ORLEN S.A. seated in Płock, 7 Chemików Street ("Company", "PKN ORLEN", "Issuer") was established through transformation of a state-owned enterprise into a joint stock company, on the basis of the Public Notary Act of 29 June 1993. The Company was registered as Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" S.A. in the District Court in Płock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spółka Akcyjna.

On 7 September 1999, Centrala Produktów Naftowych ("CPN") Spółka Akcyjna was incorporated, thus CPN was removed from the commercial register. Effective 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spółka Akcyjna.

According to Warsaw Stock Exchange classification PKN ORLEN belongs to oil and gas sector.

Principal activity of the Company includes:

- Processing of crude oil and manufacturing of oil-derivative products and semi finished products (refinery and petrochemical);
- Manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber;
- Purchase, processing and trade of used lubricant oils and other chemical waste;
- Manufacturing, transfer and trade in heating energy and electricity;
- Domestic and foreign trade on own account, on a commission and as a consignee, including in particular: the trade in crude oil, oil-derivative and other fuel, sale of industrial and consumer goods;
- Research and development activity, project work, construction and production activities on own account and as a consignee, in the areas of processing, storage, packaging and trade in solid, liquid and gaseous oil fuels, derivative chemical products as well as transportation: road, rail, water and by pipeline;
- Storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations;
- Services connected to the principal activity, in particular: sea and land reloading, refining of gas and oil including ethylization, dyeing and blending of components;
- Overhaul of appliances used in principle activities, especially refinery and petrochemical installations, oil storage appliances, petrol stations and means of transportation;
- Operation of petrol stations, bars, restaurants and hotels as well as catering activities;
- Financial holding activities, brokerage and other financial activities;
- Natural gas and crude oil exploration and extraction;
- Services to the entire society, medical services, fire protection, education.

Concessions

Concessions granted by public authorities as at 31/12/2010	periods, for which concessions were granted (in years)
Electrical energy: manufacturing, transfer and distribution, trade	18
Heating energy: manufacturing, transfer and distribution, trade	10 - 18
Liquid and gas fuels: manufacturing, trade and storage	10 - 17

As at 31 December 2010 and 31 December 2009 the Company had no liabilities related to concession services.

(all amounts in PLN thousand)

Shareholders' structure

The shareholders' structure as at 31 December 2010 was as follows:

	Number of shares	Number of voting rights	Nominal value of shares (in PLN)	% share in share capital
State Treasury	117 710 196	117 710 196	147 137 745	27.52%
Aviva OFE	21 744 036	21 744 036	27 180 045	5.08%
Others	288 254 829	288 254 829	360 318 536	67.40%
	427 709 061	**427 709 061**	**534 636 326**	**100.00%**

Composition of the Management Board

Composition of the Management Board of PKN ORLEN as at 31 December 2010 was as follows:

Dariusz Krawiec – President of the Management Board, General Director
Sławomir Jędrzejczyk – Vice-President of the Management Board, Chief Financial Officer
Wojciech Kotlarek – Member of the Management Board, Sales
Krystian Pater – Member of the Management Board, Refinery
Marek Serafin – Member of the Management Board, Petrochemistry

On 24 March 2011 the Supervisory Board of PKN ORLEN S.A. has chosen the President of the Management Board, Vice-President of the Management Board and three Management Board Members for a new term. The new term Management Board will be as follows:

Dariusz Krawiec – President of the Management Board, General Director
Sławomir Jędrzejczyk – Vice-President of the Management Board, Chief Financial Officer
Krystian Pater – Member of the Management Board, Sales
Grażyna Piotrowska-Oliwa – Member of the Management Board, Refinery
Marek Serafin – Member of the Management Board, Petrochemistry

The appointed Board of Directors will start its activity after the PKN ORLEN S.A. General Meeting, which will accepts the financial statement for 2010.

Composition of the Supervisory Board

Composition of the Supervisory Board of PKN ORLEN as at 31 December 2010 was as follows:

Maciej Mataczyński – Chairman of the Supervisory Board
Marek Karabuła – Deputy Chairman of the Supervisory Board
Angelina Sarota – Secretary of the Supervisory Board
Grzegorz Borowiec – Member of the Supervisory Board
Artur Gabor – Member of the Supervisory Board (from 25 June 2010)
Krzysztof Kołach – Member of the Supervisory Board
Leszek Jerzy Pawłowicz – Member of the Supervisory Board (from 25 June 2010)
Piotr Wielowieyski – Member of the Supervisory Board
Janusz Zieliński – Member of the Supervisory Board

On 25 June 2010 Ordinary General Meeting did not appoint for the new term of office Mr. Jarosław Rocławski to the Member of the Supervisory Board.

1.2. Statement of the Management Board

1.2.1. In respect of the reliability of unconsolidated financial statements

The Management Board of PKN ORLEN hereby declares that to the best of their knowledge the foregoing unconsolidated financial statements and comparative data were prepared in compliance with the accounting principles in force and that they reflect true and fair view on financial position and financial result of the Company and that the Management Board Report on the Company's Operations presents true overview of development, achievement and business situation of the Company, including basic risks and exposures.

1.2.2. In respect of the entity authorized to conduct audit of financial statement

The Management Board of PKN ORLEN declares that the entity authorized to conduct audit and conducting the audit of the unconsolidated financial statements, was selected in compliance with the law and that the entity and auditors conducting the audit met the conditions to issue an independent opinion in compliance with relevant regulations.

KPMG Audyt Sp. z o.o. is the entity authorized to conduct audit of unconsolidated financial statements of PKN ORLEN S.A. and consolidated financial statements of PKN ORLEN S.A Capital Group for the year 2010.

2. Accounting policies

2.1. Principles of presentation

The unconsolidated financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and were in force as at 31 December 2010. The scope of unconsolidated financial statements is compliant with Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state (Official Journal no. 33, item 259 with further amendments).

The unconsolidated financial statements cover the period from 1 January to 31 December 2010 and the comparative period from 1 January to 31 December 2009.

Presented unconsolidated financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Company's financial position as at 31 December 2010 and comparative data as at 31 December 2009, results of its operations and cash flows for the year ended 31 December 2010 and comparative data as at 31 December 2009.

The unconsolidated financial statements have been prepared assuming that the Company will continue to operate as a going concern in the foreseeable future. As at the date of approval of these financial statements there is no evidence indicating that the Company will not be able to continue its operations as a going concern.

The foregoing unconsolidated financial statements, except for cash flow statement, have been prepared using the accrual basis of accounting.

2.2. Impact of amendments and interpretations of IFRSs on unconsolidated financial statements of the Company

2.2.1. Binding amendments and interpretations to IFRSs

The amendments adopted from 1 January 2010 had no impact on the foregoing financial statements.

2.2.2. IFRSs and interpretations to IFRSs not yet effective

The Company intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2010 , in accordance with their effective date. In the current reporting period, the Company did not make decision to voluntary early adopt amendments and interpretations to standards.

IFRSs and interpretations to IFRSs adopted by EU

Amendments to IFRS 1 – Limited exemptions from comparative IFRS 7 disclosures for First-time Adopters

The amendment refers to limited exemptions from comparative IFRS 7 disclosures for First-time Adopters. The exemption refers to first reporting periods beginning earlier than 1 January 2010.
The amended standard was published on 1 July 2010. According to the Commission Regulation no 574/2010 all entities shall apply the amendments to IFRS 1 and IFRS 7 as from the commencement date of its first financial year starting after 30 June 2010.
The amended standard is not relevant to financial statements of the Company.

Amendments to IAS 24 Related Parties Disclosures

The amendment introduces exemptions to disclosures of related party transactions, outstanding balances, including contingent liabilities with: (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised standard also amends the definitions of a related party which resulted in new relations being included in the definition such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

The amended standard was published on 20 July 2010. According to the Commission Regulation no 632/2010 all entities shall apply the amended standard at the latest, as from the commencement date of its first financial year starting after 31 December 2010.
The amendments to IAS 24 will have no impact on financial statements of the Company.

Amendments to IAS 32 Classification of rights issues

The amendment requires that rights, options and warrants issued to acquire a fixed number of entity’s own equity instruments for a fixed amount of any currency are classified as equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of entity’s non-derivative equity instruments.
The amendments to standard were published on 24 December 2009. According to the Commission Regulation no 1293/2009 all entities shall apply the amendments at the latest, as from commencement date of its first financial year starting after 31 January 2010.
Amendments to IAS 32 are not relevant to financial statements of the Company due to the fact that the Company did not issue such instruments at any time in past.

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirements

Amended IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirement. According to the amendments, the entity is required to recognise certain prepayments as an asset, on the basis that the entity has future economic benefits, from the prepayment in the form of reduced cash outflows in future years in which minimum funding requirements payments would otherwise be required.
Amendments to interpretation were published on 20 July 2010. According to the Commission Regulation no 633/2010 all entities shall apply the amendments at the latest, as from the commencement date of its first financial year starting after 31 December 2010.
Amendments to IFRIC 14 are not relevant to financial statements of the Company due to the fact , that the Company does not have any defined benefit plans with minimum funding requirements.

New interpretation IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Interpretation clarifies that the equity instruments issued to a creditor of an entity to extinguish all or part of a financial liability, in form of ’debt for equity swaps’ are considered paid in accordance with IAS 39.41.
The initial recognition of equity instruments issued to extinguish a financial liability is at the fair value of the equity instrument issued, unless that fair value cannot be reliably measured, in which the equity instrument shall be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the initial measurement amount of equity instruments issued should be recognised in profit or loss of the current period.

The interpretation was published on 24 July 2010. According to the Commission Regulation no 662/2010 all entities shall apply the above amendments at the latest, as from the commencement date of its first financial year starting after 30 June 2010.

Since the interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the interpretation will have. In the current period the Company did not issue equity instruments to cover financial liabilities. For the same reason the above interpretation will not have a significant influence on the comparative data disclosed in the financial statements for the year ended 31 December 2010.

Annual improvements to International Financial Reporting Standards in 2010

The improvements contain 11 amendments to 6 standards and 1 interpretation and are mainly focused on solving discrepancies and specifying wording. Introduced changes specified required accounting treatment in the situation when previously, free interpretation was acceptable.
The improvements were published on 19 February 2011. According to the Commission Regulation no 149/2011 all entities shall apply the above improvements at the latest as from the commencement date of its first financial year starting after 30 June 2010 or 31 December 2010.
Since the improvements can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the interpretation will have.

Standards and interpretations waiting for approval of EU

Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendment adds an exemption that an entity can apply, at the date of transition to IFRSs after being to severe hyperinflation. This exemption allows the entity to measure all assets and liabilities held before the functional currency normalisation date at fair value and use that fair value as a deemed cost of those assets and liabilities in the opening IFRS statement of financial position.
An entity shall apply those amendments for annual periods beginning on or after 1 July 2011.
It is expected that at the date of adoption, the amendments to standard will have no influence on future financial statement.

Amendments to IFRS 7 Disclosures – Transfers of financial assets

The amendment requires disclosures to help users of financial statement:
- to understand the relationship between transferred financial assets that are not derecognised from the financial statements in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

The amendment defines “continuing involvement” for the purposes of applying the disclosure requirements.
An entity shall apply that amendment for annual periods beginning on or after 1 July 2011. When applied, it is expected that at the amendment to IFRS 7 will increase the current level of disclosures in the financial statements.

New standard and amendments to IFRS 9 Financial instruments

New standard replaces guidance in IAS 39 *Financial Instruments: Recognition and Measurement* about classification and measurement of financial assets. The standard eliminates existing IAS 39 categories: held for maturity, available for sale and loans and receivables.
At the initial recognition, financial assets will be classified as: financial assets measured at amortised cost or financial assets measured at fair value.

The 2010 amendments to IFRS 9 replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* about classification and measurement of financial liabilities and derecognition of financial assets and financial liabilities. The standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities. The standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, shall be presented in other comprehensive income, with only the remaining amount of the total gain or loss included in profit or loss of current period. If the requirements would create or enlarge an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss of the current period.

The amounts presented in other comprehensive income are not subsequently reclassified to profit or loss of the current period, but may be transferred within equity.

Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.

An entity shall apply IFRS 9 with amendments for annual periods beginning on or after 1 January 2013.

It is expected that the amendments to the Standard, when initially applied, will have a significant impact on future consolidated financial statements and comparative data, since they will be required to be retrospectively applied.

Amendments to IAS 12 Income taxes - Deferred tax: Recovery of Underlying Assets

Amendments introduced in 2010 provide the exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using fair value model in IAS 40 by introducing a rebuttable presumption that that in these for the assets the manner of recovery will be entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.

An entity shall apply those amendments for annual periods beginning on or after 1 January 2012.
The impact of the initial application will be dependent on the specific assets held and their fair values at the date of the initial application. Until the date of the initial application of the Standard the Company is unable to determine the effects the application will have on future financial statements.

2.2.3. Presentation changes

- Starting from 1 January 2010 the Company recognises in the unconsolidated statement of financial position CO_2 emission rights granted free of charge as intangible assets and deferred income at the fair value of CO_2 emission rights at the date of their receipt.

  The Company recognises provision for estimated CO_2 emissions in the reporting period. In the unconsolidated result the cost of recognised provision is compensated with settlement of deferred income on CO_2 emission rights granted free of charge. In the financial statements for the previous reporting periods intangible assets were compensated, and presented net with deferred income and provision for CO_2 emissions. The change in presentation had no impact on unconsolidated statement of comprehensive income for the year ended 31 December 2009, nor, due to the sale of CO_2 emissions rights in 2009, on the unconsolidated statement of financial position as at 31 December 2009.
- In segment data relating to unconsolidated statement of comprehensive income for the year ended 31 December 2009 (disclosed in note 4 to the unconsolidated financial statement) a reclassification adjustments of PLN 1,304,031 thousand was made from the position of sales revenues and operating expenses of the refining segment to the position of sales revenues and operating expenses of the retail segment. The adjustment reflects sales volumes generated through DOFO (Dealer Owned Franchise Operated) channel, previously presented in the refining segment.

According to the Management Board the above mentioned changes ensure better presentation of results of operations.

2.2.4. Functional and presentation currency

The functional and presentation currency of the foregoing unconsolidated financial statements is Polish Złoty. Accounting policies for foreign exchange transactions are disclosed in note 2.3.2.

2.3. Applied accounting policies

2.3.1. Changes in accounting policies and estimates

An entity shall change an accounting policy only if the change:

- is required by an IFRS; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

In case of change in accounting policy it is assumed that the new policy had always been applied. The amount of the resulting adjustment is made to the equity. For comparability, the entity shall adjust the comparative information for the earliest prior period presented as if the new accounting policy had always been applied, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

2.3.2. Transactions in foreign currencies

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:

- foreign currency monetary items, including units of currency held by the Company and receivables and liabilities due in a defined or definable units of currency shall be translated using the closing rate, i.e. the spot rate at the end of the reporting period;
- non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised by the Company in profit or loss in the period in which they arise, except for the monetary items which hedge the currency risk and are accounted in accordance with the cash flow hedge accounting principles.

2.3.3. Business combinations

An entity shall account for each business combination by applying the acquisition method. Applying the acquisition method requires:

- identifying the acquirer,
- determining the acquisition date,
- recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire, and
- recognising and measuring goodwill or a gain from a bargain purchase.

The fair value of assets, liabilities and contingent liabilities for the purpose of allocating the acquisition cost is determined in accordance with principles set in attachment B to IFRS 3.

2.3.4. Operating Segments

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

The operations of the Company were divided into following segments:

- the refining segment, which includes refinery products processing and wholesale, oil production and sale as well as supporting production,
- the retail segment, which includes sales at petrol stations,
- the petrochemical segment, which includes the production and wholesale of petrochemicals and production and sale of chemicals

and corporate functions which are reconciling item and include activities related to management and administration and other support functions as well as remaining activities not allocated to separate segments.

Segment revenues are revenues reported in the statement of comprehensive income that are directly attributable to a segment and the relevant portion of revenues that can be allocated on a reasonable basis to a segment, including revenues from sales to external customers and revenues from transactions with other segments.

Segment expenses are expenses resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion of the Company's expenses that can be allocated on a reasonable basis to a segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments.

Segment expenses do not include:

- income tax expense,
- interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature,
- losses on sales of investments or losses on extinguishment of debt unless the segment's operations are primarily of a financial nature,
- general and administrative expenses and other expenses arising at the level of the Company as a whole, unless they are directly attributable to the segment and can be allocated to the segment on a reasonable basis.

Segment result is calculated on the level of operating result.

Segment assets are those operating assets that are employed by that segment in operating activity and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Particularly segment assets do not include assets connected with income tax.

The revenues, result, assets of a given segment are defined before inter-segment adjustments are made, after adjustments within a given segment.

Sales prices used in transactions between segments are close to market prices.

2.3.5. Property, plant and equipment

Property, plant and equipment are assets that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- are expected to be used during more than one period (one year or the operating cycle, if longer than one year).

Property, plant and equipment include both fixed assets (assets that are in the condition necessary for them to be capable of operating in the manner intended by management) as well as construction in progress (assets that are in the course of construction or development necessary for them to be capable of operating in the manner intended by management).

Property, plant and equipment are initially stated at cost. The cost of an item of property, plant and equipment comprises its purchase price, including any costs directly attributable to bringing the asset into use. The cost of an item of property, plant and equipment includes also the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment.

Property, plant and equipment are stated in the statement of financial position prepared at the end of the reporting period at the carrying amount. The carrying amount is the amount at which an asset is initially recognised (cost) after deducting any accumulated depreciation and accumulated impairment losses.

Depreciation of an item of property, plant and equipment begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, over the period reflecting its estimated economic useful life, considering the residual value. Fixed assets are depreciated with straight-line method and in justified cases units of production method of depreciation. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over the period reflecting its economic useful life.

The depreciable amount of an asset is determined after deducting its residual value from the initial value.

The following standard economic useful lives are used for property, plant and equipment:

Buildings and constructions	10-40 years
Machinery and equipment	4-35 years
Vehicles and other	2-20 years

Appropriateness of the applied depreciation rates is verified periodically (at least once a year). The adjustments are accounted for prospectively.

The cost of significant repairs and regular maintenance programs is recognised as property, plant and equipment and depreciated in accordance with their economic useful lives. The cost of current maintenance of property, plant and equipment is recognised as an expense when it is incurred.

The Company assesses (once a year) the residual value of property, plant and equipment.
Property, plant and equipment are tested for impairment, when there are indicators or events that may imply that the carrying amount of those assets may not be recoverable.

2.3.6. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:

- is separable, ie is capable of being separated or divided from the Company and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability,
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Company.

An intangible asset shall be recognised if, and only if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company; and
- the cost of the asset can be measured reliably.

If the definition criteria of an intangible asset are not met, the cost incurred to acquire or self develop an asset are recognised in profit or loss when incurred. If an asset was acquired in a business combination it is part of a goodwill as at acquisition date.

An intangible asset shall be measured initially at cost. An intangible asset that is acquired in a business combination, is recognised initially at fair value.

After initial recognition, an intangible asset shall be presented in the statement of financial position in its net carrying amount.

Intangible assets with finite useful life are amortised using straight-line method. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The asset shall be amortised over the period reflecting its estimated useful life. The amortisation period and the amortisation method shall be reviewed periodically (at least at each financial year-end). The changes are reflected in the future accounting periods (prospectively).

The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. Excluding particular cases, the residual value of an intangible asset with a finite useful life shall be assumed to be zero.

The following standard economic useful lives are used for intangible assets:

Concessions, licenses, patents and similar	2–15 years
Software	2–10 years

Intangible assets with an indefinite useful life shall not be amortised. Their value is decreased by the eventual impairment allowances. Additionally, the useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

2.3.6.1. Rights

Carbon dioxide emission rights (CO_2)

CO_2 emission rights are initially recognised as intangible assets, which are not amortised (assuming the high residual value), but tested for impairment.

Granted emission allowances should be presented as separate items as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased allowances should be presented as intangible assets at purchase price.

For the estimated CO_2 emission during the reporting period, a provision should be created in operating activity costs (taxes and charges).

Grants should be recognised on a systematic basis to ensure proportionality with the related costs which the grants are intended to compensate. Consequently, the cost of recognition of the provision in the statement of comprehensive income is compensated by a decrease of deferred income (grants) with taking into consideration the proportion of the estimated quantity of emission (accumulated) to the quantity of evaluated annual emission. The surplus of grant over the estimated emission in the reporting period is recognised as other operating income.

Granted/purchased CO_2 emission allowances are amorised against the book value of provision, as its settlement. Outgoing of allowances is recognised using FIFO method (first in, first out).

2.3.7. Perpetual usufruct of land

Perpetual usufruct of land is recognised at the acquisition cost and presented in a separate line of the statement of financial position.

As at the end of the reporting period perpetual usufruct of land is valued at the net carrying amount, i.e. at the acquisition cost less any accumulated depreciation and impairment losses.

Perpetual usufruct of land received based on administrative decision are recognised only off balance sheet.

2.3.8. Borrowing cost

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are directly charged into profit or loss.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs are capitalized based on so called net investment expenditures which means assets in the process of construction not funded through the use of investment commitments, but using other sources of external financing.

Borrowing costs may include:

- interest expense calculated using the effective interest method as described in IAS 39 Financial Instruments: Recognition and Measurement,

- finance charges in respect of finance leases recognised in accordance with IAS 17 Leases, and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Upper limit of the borrowing cost eligible for capitalization is the value of borrowing cost actually born by the entity.

The commencement date for capitalization is the date when all of the following three conditions are met:

- expenditures for the asset are incurred,
- borrowing costs are incurred,
- activities necessary to bring the asset into its intended use or sale are undertaken.

Capitalising of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Necessity to perform additional administrative or decoration works or some adaptation requested by the buyer or user are not the basis for the capitalization.

After putting the asset into use, the capitalized borrowing costs are depreciated/ amortised over the period reflecting economic useful life of the asset as part of the cost of the asset.

2.3.9. Impairment of assets

If there are external or internal indicators that the carrying amount of an asset as at the end of the reporting period may not be recoverable, the impairment tests are carried out. The tests are carried out also annually for intangible assets with the indefinite useful life and for goodwill.

When carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the carrying amount is decreased to the recoverable amount by an adequate impairment allowance charged against cost in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its value in use and its fair value less costs to sell.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Assets that do not generate the independent cash flows are grouped on the lowest level on which cash flows, independent from cash flows from other assets, are generated (cash generating units). To the cash generating unit following assets are allocated:

- goodwill, if it may be assumed, that the cash generating unit benefited from the synergies associated to a business combination with another entity,
- corporate assets, if they may be allocated on a reasonable and coherent basis.

The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

At the end of each reporting period an assessment shall be made whether an impairment loss recognised in prior periods for an asset shall be partly or completely reversed. Indications of a potential decrease in an impairment loss mainly mirror the indications of a potential impairment loss in prior periods.

An impairment loss recognised for goodwill shall not be reversed.

Reversal of an impairment loss is recognised in profit or loss.

2.3.10. Inventories

Inventories are assets:

- held for sale in the ordinary course of business,
- in the process of production for such sale, or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories comprise products, semi-finished products and work in progress, merchandise and materials.
Finished goods, semi-finished products and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period.

Costs of production include also a systematic allocation of fixed and variable production overheads estimated for normal production level.

The production costs do not include:

- costs incurred as a consequence of low production or production losses,
- general and administrative expenses that are not directly attributable to bringing the inventories to the condition and location at the moment of measurement,
- storage costs of finished goods, semi-finished products and work in progress, unless these costs are necessary in the production process,
- distribution expenses.

Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost and net realisable value, after deducting any impairment losses.

Outgoings of finished goods, semi-finished products and work in progress is determined based on the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items produced during the reporting period.

Merchandise and raw materials are measured initially at acquisition cost.
As at the end of the reporting period merchandise and raw materials are measured at the lower of cost and net realizable value, considering any impairment allowances.

Impairment tests for specific items of merchandise and raw materials are carried out on a current basis during an annual reporting period. Write-down to net realizable value concerns raw materials and merchandise that are damaged or obsolete.

Raw materials held for use in the production are not written down below acquisition or production cost if the products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the products exceeds net realizable value, the materials are written down to net realizable value.

Outgoings of merchandise and raw materials is determined based on the weighted average acquisition cost or production cost formula.

2.3.11. Receivables

Receivables, including trade receivables, are recognised initially at amortized cost using the effective interest method less impairment allowances. The Company uses simplified methods of receivables measurement including trade receivables, if it does not distort information included in the financial statements, particularly if the payment term of receivables is not long. Receivables, including trade receivables, in relation to which simplified methods are used, are measured initially at the amounts due and after initial recognition (including the end of the reporting period) at the amounts due less impairment allowances.

2.3.12. Cash and cash equivalents

Cash comprises cash on hand and in a bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of the Company's cash management.

Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO method ("First In, First Out").

2.3.13. Non-current assets held for sale

Non-current assets held for sale are those which comply simultaneously with the following criteria:

- the sales were declared by the appropriate level of management,
- the assets are available for an immediate sale in their present condition,
- an active program to locate a buyer has been initiated,
- the sale transaction is highly probable and can be settled within 12 months following the sales decision,
- the selling price is reasonable in relation to its current fair value,
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

Reclassification is reflected in the reporting period when the classification criteria are met. If the criteria for classification of a non-current asset as held for sale are met after the reporting period, an entity shall not classify a non-current asset as held for sale in those financial statements when issued.

While a non-current asset is classified as held for sale it shall not be depreciated (or amortised).
A non-current assets held for sale (excluding among others financial assets and investment property) shall be measured at a lower of: book value or fair value less costs to sell.

A gain is recognised for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been previously recognised.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

The Company shall re-present the disclosures presented with refer to discontinued operation for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

If the Company ceases to classify a discontinued operation, the results of operations previously presented in discontinued operations shall be reclassified and included in the results from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

2.3.14. Equity

Equity is recorded in accounting books by type, in accordance with legal regulations and the Company's articles of association. Equity comprise:

2.3.14.1. Share capital

The share capital is a equity paid by shareholders and is stated at nominal value in accordance with the Company's articles of association and the entry in the Commercial Register.

Declared but not paid share capital is presented as outstanding share capital contributions. The Company's own shares and outstanding shares capital contributions decrease the equity.

2.3.14.2. Share premium

Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs.

Issuance costs incurred by setting up a Company or increasing the share capital decrease the share premium to the amount of the surplus of the issuance value in excess of the nominal value of shares, and the remaining portion is presented in retained earnings.

2.3.14.3. Hedging reserve

Hedging reserve relates to valuation and settlement of hedging instruments that meet the criteria of cash flow hedge accounting.

2.3.14.4. Revaluation surplus

Revaluation surplus relates to a difference between the fair value and the purchase cost, after deducting deferred tax, of assets held for sale, if there is a market price available from active regulated market, or fair value may be calculated on other reliable basis.

2.3.14.5. Other reserve capital

Additional payments to equity are initially recognised at fair value.

Non repayable additional payments to equity received or payments with non-confirmed repayment date are presented in equity. Non repayable additional payments to equity made or payments with non-confirmed repayment date are presented as investments in shares.

Repayable additional payments to equity received are presented as liabilities (short or long term). Repayable additional payments to equity made are presented as current or non-current receivables based on the repayment date.

2.3.14.6. Retained earnings

Retained earnings include:

- the amounts arising from profit distribution/loss cover,
- the undistributed result for prior periods,
- the current period profit/(loss),
- advance dividends paid,
- the effects (profit/loss) of prior period errors,
- changes in accounting principles.

2.3.15. Liabilities

Liabilities, including trade liabilities, are stated at amortized cost using the effective interest method. The Company uses simplified methods of liabilities measurement, including trade liabilities that are usually measured at amortized cost, if it does not distort information included in the financial statements, particularly if the payment term of liabilities is not long. Liabilities, including trade liabilities, in relation to which simplified methods are used, are measured initially and after initial recognition (including the end of the reporting period) at the amounts due.

2.3.15.1. Government grants

Government grants are transfers of resources to the Company by government, government agencies and similar bodies whether local, national or international in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Government grants shall not be recognised until there is reasonable assurance that the grants will be received and the entity will comply with the conditions attaching to them.

Grants related to costs are presented as compensation to the given cost at the period they are incurred. The surplus of the received grant over the value of the given cost is presented as other operating income.

Government grants related to assets, shall be presented net with the related asset and is recognised in profit or loss on a systematic basis over the useful life of the asset through the decreased depreciation charges.

2.3.16. Provisions

A provision is a liability of uncertain timing or amount.

The Company recognises a provision when it has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation the provision is reversed. The provision is used only for expenditures for which the provision was originally recognised.

When the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognised as financial expenses.

The provisions are created among others for:
- environmental risk,
- jubilee bonuses and post-employment benefits,
- business risk,
- shield programs,
- CO_2 emission.

Provisions are not recognised for the future operating losses.

2.3.16.1. Environmental provision

The Company creates provisions for future liabilities due to reclamation of contaminated land or water or elimination of harmful substances if there is such a legal or constructive obligation. Environmental provision for reclamation is periodically reviewed based on reports prepared by independent experts. The Company conducts regular reclamation of contaminated land that decreases the provision by its utilization.

2.3.16.2. Jubilee bonuses and post-employment benefits

Under the remuneration plans employees are entitled to jubilee bonuses as well as retirement and pension benefits.

The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits as well as jubilee bonuses depends on the number of years of service and an employee's average remuneration.

The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as post-employment defined benefit plans.

The provision for jubilee bonuses, retirement and pension benefits is created in order to allocate costs to relevant periods.

The provisions equal to the present value of these liabilities are estimated at the end of each reporting year by an independent actuary and adjusted if there are any material indications impacting the value of the liabilities. The accumulated liabilities equal discounted future payments, considering the demographic and financial assumption including employee rotation, planned increase of remuneration and relate to the period ended at the last day of the reporting year.
Actuarial gains or losses are recognised in profit or loss.

2.3.16.3. Business risk

Business risk provision is created after consideration of all available information, including legal opinions. If on the basis of such information:

- it is more likely than not that a present obligation exists at the end of the reporting period, the entity recognises a provision (if the recognition criteria are met);
- it is more likely that no present obligation exists at the end of the reporting period, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

2.3.16.4. Shield programs

Shield programs provision (restructuring provision) is created when the Company started to implement the restructuring plan or announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the Company will carry out the restructuring. A restructuring provision shall include only the direct expenditures arising from the restructuring, i.e. connected with the termination of employment (paid leave payments and compensations), termination of lease contracts, dismantling of assets.

2.3.16.5. CO_2 emissions

For the estimated CO_2 emission during the reporting period, a provision should be created in operating activity costs (taxes and charges).

2.3.17. Accruals

Accruals are liabilities due for goods or services received/provided, but not paid, invoiced or formally agreed with the seller, together with amounts due to employees.

Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much lower than it is for provisions.

Accruals relate for example to:
- uninvoiced services,
- unused holidays,
- investment liabilities.

2.3.18. Revenues from sale

Revenues from sale (from operating activity) comprise revenues that relate to core activity, i.e. activity for which the Company was founded, revenues are recurring and are not of incidental character. Particularly revenues that are fully under Company's control.

2.3.18.1. Revenues from sales of finished goods, merchandise, materials and services

Revenues from sales of finished goods, merchandise, materials and services are recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from sale of finished goods, merchandise, raw materials and services are recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenues include received or due payments for delivered goods or services rendered decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges. Revenues are measured at fair value of the received or due payments. Revenues realized on settlement of financial instruments hedging cash flows adjust revenues from sale of inventories and services.

Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognised based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Company and the stage of completion can be measured reliably. If those conditions are not met, revenues are recognised up to the cost incurred, but not greater than the cost which are expected to be recovered by the Company.

2.3.18.2. Revenues from licenses, royalties and trade mark

Revenues from licenses, royalties and trade mark are recognised on an accrual basis in accordance with the substance of the relevant agreements. Prepayments, referring to agreements concluded in the current period by the Group are recognised as deferred income and settled in the periods when economic benefits are realized according to the agreements.

2.3.18.3. Franchise revenues

Franchise revenues are recognised in accordance with the substance of the relevant agreement, in a way reflecting the reason of charging with franchise fees.

2.3.19. Costs

Costs (relating to operating activity) comprise costs that relate to core activity, i.e. activity for which the Company was founded, costs are recurring and are not of incidental character. Particularly costs that are connected to purchase of raw materials, their processing and distribution, that are fully under Company's control.

The Company recognises costs in accordance with matching and prudence concept.

2.3.19.1. Cost of sales

Cost of sales comprises costs of finished goods, merchandise and raw materials sold, including services of support functions.

2.3.19.2. Distribution expenses

Distribution expenses include selling brokerage expenses, trading expenses, advertising and promotion expenses as well as distribution expenses.

2.3.19.3. General and administrative expenses

General and administrative expenses include expenses relating to management and administration of the Company as a whole.

2.3.20. Other operating revenues and expenses

Other operating revenues refer to operating revenues, in particular relating to profit from liquidation and sale of non-financial non-current assets, surplus of assets, return of court fees, penalties earned by the Company, surplus of grants received to revenues over the value of costs, assets received free of charge, reversal of receivable impairment allowances and some provisions, compensations earned, revaluation gains and profit on sale of investment property.

Other operating costs refer to operating costs, in particular relating to loss on liquidation and sale of non-financial non-current assets, shortages of assets, court fees, contractual penalties and fines, penalties for non-compliance with environmental protection regulations, cash and tangible assets granted free of charge, impairment allowances (except those that are recognised as financial expenses), compensations paid, write-off of construction in progress which have not produced the desired economic effect, research costs, cost of recovery of receivables and liabilities, revaluation losses and loss on sale of investment property.

2.3.21. Financial revenues and expenses

Financial revenues include, in particular, profit from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and foreign exchange gains.

Revenues from dividends are recognised when the shareholders’ right to receive payments is established.

Financial costs include, in particular, the loss on the sale of shares and securities sold and costs associated with such sale, impairment losses relating to financial assets such as shares, securities and interest receivables, foreign exchange losses, interest on bonds and other securities issued, interest on finance lease, commissions on bank loans, borrowings, guarantees, interest costs.

2.3.22. Income tax expense

Income tax expense comprises current tax and deferred tax.

Current tax is determined in accordance with the relevant tax law based on the taxable profit for a given period.

Current tax liabilities for current and prior periods represent the amounts payable at the reporting date. If the amount of the current and prior periods income tax paid exceeds the amount due the excess is recognised as a receivable.

Deferred tax assets are recognised for deductible temporary differences, unrealized tax losses and unrealized tax relieves.

Deferred tax liabilities are recognised for taxable temporary differences.

Deductible temporary differences are temporary differences that will result in reducing taxable amounts of future periods when the carrying amount of the asset or liability is recovered or settled. Deductible temporary differences arise when the carrying amount of an asset is lower than its tax base or when the carrying amount of a liability is higher than its tax base. Deductible temporary differences may also arise in connection with items not recognised in the accounting records as assets or liabilities.

Taxable temporary differences are temporary differences that will result in increasing taxable amounts of future periods when the value of the asset or liability at the end of the reporting period is recovered or settled. Taxable temporary differences arise when the carrying amount of an asset at the end of reporting period is higher than its tax base or when the carrying amount of a liability is lower than its tax base. Taxable temporary differences may also arise in connection with items not recognised in the accounting records as assets or liabilities.

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities

If the transaction is not a business combination, and affects neither accounting profit nor taxable profit (loss), an entity would not recognise the resulting deferred tax liability or asset arising on initial recognition of an asset or liability. No deferred tax liability is recognised on goodwill, amortisation of which is not a tax deductible expense.

Deferred tax assets and liabilities shall be measured at the end of each reporting period at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (impairment analysis of deferred tax assets at each reporting date).

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities relating to transactions settled directly in equity are recognised in equity.

Deferred tax assets and liabilities are accounted for as non-current assets or long-term liabilities.

Deferred tax assets and liabilities are offset in the statement of financial position, if the Company has a legally enforceable right to set off the recognised amounts. It is assumed that a legally enforceable right exists if the amounts concern the same tax payer, except for amounts taxed based on lump sum method or in a similar way, if tax law does not allow to offset them with tax determined according to general rules.

2.3.23. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for a given period which is attributable to ordinary shareholders of the Company (numerator) by the weighted average number of ordinary shares outstanding during the period (denominator).

For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the Company in respect of:

- profit or loss from continuing operations attributable to the Company; and
- profit or loss attributable to the Company,

shall be the amounts above adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares. Profit or loss attributable to ordinary equity holders of the Company is increased by the after-tax amounts of dividends and interest for the period, attributable to the dilutive potential ordinary shares adjusted by all other changes of income and expense, which would result from the change of dilutive ordinary shares.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

2.3.24. Statement of cash flows

The statement of cash flows is prepared using indirect method.

Cash and cash equivalents presented in the statement of cash flows include cash and cash equivalents less bank overdrafts, if they form an integral part of the Company's cash management.

The Company discloses components of cash and cash equivalents and reconciliation between amounts disclosed In the statement of cash flows and respective lines of statement of financial position.

Non-cash transactions are excluded from statement of cash flows.

Dividends received are presented in cash flows from investing activities.

Dividends paid are presented in cash flows from financing activities.

Interest received from finance leases, loans granted and short-term securities and system of cash concentration (cash pool) are presented in cash flows from investing activities. Other interest received are presented in cash flows from operating activities.

Interest paid and provisions on bank loans and borrowings received, cash pool facility, debt securities issued and finance leases are presented in cash flows from financing activities. Other interest paid are presented in cash flows from operating activities.

Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short are reported on a net basis in the statement of cash flows.

Cash received or paid due to term agreements i.a. futures, forward, options, swap is presented in cash flows from investing activities, unless the agreements are held by the Company for trading or cash received or paid is presented in financing activities.

If the contract is booked as hedge of a given position, cash flows from such contract are classified in the same way as the cash flows resulting from the position hedged.

Cash flows from corporate income tax are presented in cash flows from operating activities, unless it may be related to investing or financing activities.

2.3.25. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2.3.25.1. Recognition and derecognition in statement of financial position

The Company recognises a financial asset or a financial liability on its statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A regular way purchase or sale of financial assets is recognised by the Company as at trade date.

The Company derecognises a financial asset from the statement of financial position when, and only when:

- the contractual rights to the cash flows from the financial asset expire, or
- it transfers the financial asset to another party.

The Company derecognises a financial liability (or part of financial liability) from its statement of financial position when, and only when it is extinguished - that is when the obligation specified in the contract:

- is discharged, or
- is cancelled, or
- expired.

2.3.25.2. Measurement of financial assets and liabilities

When a financial asset is recognised initially, the Company measures it at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs comprise particularly fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges and transfer of taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

For the purpose of measuring a financial asset at the end of the reporting period or any other date after initial recognition, the Company classifies financial assets into the following four categories:

- financial assets at fair value through profit or loss,
- held-to-maturity investments,
- loans and receivables,
- available-for-sale financial assets.

Regardless of characteristics and purpose of a purchase transaction, the Company classifies initially selected financial assets as financial assets at fair value through profit or loss, when doing so results in more relevant information.

A financial asset at fair value through profit or loss is a financial asset that has been designated by the Company upon initial recognition as at fair value through profit or loss or classified as held for trading if it is:

- acquired principally for the purpose of selling or repurchasing in the near term, or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
- a derivative (except for a derivative that is an effective hedging instrument).

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

Available-for-sale financial assets are those non-derivative financial assets that are designated by the Group as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

a. Fair value measurement of financial assets

The Company measures financial assets at fair value through profit or loss, including derivative financial assets and available-for-sale financial assets at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal.

Fair value of financial assets is determined in the following way:

- for instruments quoted on an active market based on current quotations available as at the end of the reporting period,
- for debt instruments unquoted on an active market based on discounted cash flows analysis,
- for forward and swap transactions based on discounted cash flows analysis.

If the fair value of investments in equity instruments (shares) that do not have a quoted market price on an active market is not reliably measurable, the Company measures them at cost, that is the acquisition price less any accumulated impairment losses.

Financial assets designated as hedged items are measured in accordance with the principles of hedge accounting.

A gain or loss on a financial asset classified as at fair value through profit or loss are recognised through profit or loss.

A gain or loss on an available-for-sale financial asset are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses that are recognised in profit or loss. In case of debt financial instruments interest calculated using the effective interest method are recognised in profit or loss.

b. Amortized cost measurement of financial assets

The Company measures loans and other receivables, including trade receivables, as well as held-to-maturity investments at amortized cost using the effective interest method. The Company uses simplified methods in respect of measurement of financial assets at amortized cost if it does not distort information included in the statement of financial position, especially when the maturity date is not long. Financial assets measured at amortized cost, in relation to which the Company uses simplifications, are measured initially at the amounts due and after initial recognition (including the end of the reporting period) at the amounts due less any cumulated impairment losses.

c. Fair value measurement of financial liabilities

As at the end of the reporting period or other dates after the initial recognition the Company measures financial liabilities at fair value through profit or loss (including particularly derivatives which are not designated as hedging instruments) at fair value. Regardless of characteristics and purpose of a purchase transaction, the Company classifies initially selected financial liabilities as financial liabilities at fair value through profit or loss, when doing so results in more relevant information. The fair value of a financial liability is the current price of instruments quoted on an active market.

If there is no active market for a financial instrument, the fair value of the financial liabilities is established by using the following techniques:

- using recent arm's length market transactions between knowledgeable, willing parties,
- reference to the current fair value of another instrument that is substantially the same,
- discounted cash flow analysis.

d. Amortised cost measurement of financial liabilities

The Company measures other financial liabilities at amortized cost using the effective interest rate method. The Company uses simplified methods of measurement of financial liabilities that are usually measured at amortized cost, if it does not distort information included in the financial statements, especially when the maturity date is not long. Financial liabilities in relation to which simplified methods are used, are measured initially and after initial recognition (including the end of the reporting period) at the amounts due.

Financial guarantee contracts, that are contracts that require the Company (issuer) to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument, not classified as financial liabilities at fair value through profit or loss are measured at the higher of:

- the amount determined in accordance with principles relating to valuation of provisions,
- the amount initially recognised less, when appropriate, cumulative amortization.

2.3.25.3. Transfers

The Company:
- shall not reclassify a derivative out the fair value through profit or loss category while it is held or issued;
- shall not reclassify a financial instrument out of fair value through profit or loss category if at initial recognition it has been designated by the Company as measured at fair value through profit and loss; and
- may, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), reclassify that financial asset out of the fair value through profit or loss category in limited circumstances, and in case of loans and receivables (if at initial recognition financial assets was not classified at held for trading) if an entity has intention and possibility to hold a financial asset in a foreseeable future or to maturity.

The Company does not reclassify financial instruments into category of fair value through profit or loss after initial recognition.

2.3.25.4. Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective indicator that a financial asset or group of financial assets is impaired.

If there is an objective indicator that an impairment loss on loans and other receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in profit or loss as revenue.

If there is an objective indicator that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

If there is an objective indicator that an impairment loss has been incurred on an available-for-sale financial asset, the cumulative loss that had been recognised in statement of comprehensive income is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Impairment losses for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

2.3.25.5. Embedded derivatives

If the Company is a party of a hybrid (combined) instrument that includes an embedded derivative, the embedded derivative is separated from the host contract and accounted for as a derivative in accordance with principles defined for investments at fair value through profit or loss if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same realization terms as the embedded derivative would meet the definition of a derivative, and
- the hybrid instrument is not measured at fair value with changes in fair value recognised in statement of comprehensive income (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

The Company assesses the need to separate an embedded derivative from the host contract and to present it as a derivative, when it becomes a party of a hybrid instrument for the first time. Reassessment is made only in case, when subsequent changes are introduced to the hybrid contract that substantially modify cash flows required by the contract.

A derivative is a financial instrument with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract,
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and
- it is settled at a future date.

2.3.25.6. Hedge accounting

Derivatives designated as hedging instruments whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a hedged item are accounted for in accordance with fair value or cash flow hedge accounting, if all of the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- the effectiveness of the hedge can be reliably measured,
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Company does not apply hedge accounting in case when embedded derivative instrument is separated from the host contract.

The Company assess effectiveness at the inception of the hedge and later, at minimum, at each reporting date. The Company assess hedge as effective, only if the actual results of the hedge are within a range of 80% -125%. The Company uses statistical methods, in particular regression analysis, to assess effectiveness of the hedge. The Company uses simplified analytical methods, when a hedged item and a hedging instruments are of the same nature i.a. maturity dates, amounts, changes affecting fair value risk or cash flow changes.

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

If a fair value hedge is used, it is accounted for as follows:

- the gain or loss from remeasuring the hedging instrument at fair value is recognised in profit or loss, and
- the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss (this applies also if the hedged item is an available-for-sale financial asset, whose changes in value are recognised in other comprehensive income).

The Company discontinues fair value hedge accounting if:

- the hedging instrument expires, is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the Company's documented hedging strategy),
- the hedge no longer meets the criteria for hedge accounting, or
- the Company revokes the designation.

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. A forecast transaction is an uncommitted but anticipated future transaction.

If a cash flow hedge is used, it is accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income, and
- the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affect profit or loss. However, if the Company expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies to profit or loss the amount that is not expected to be recovered.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Company removes the associated gains and losses that were recognised in the other comprehensive income and includes them in the initial cost or other carrying amount of the asset or liability.

The Company discontinues prospectively cash flow hedge accounting if:

- the hedging instrument expires, is sold, terminated or exercised - in this case, the cumulative gain or loss on the hedging instrument recognised in other comprehensive income remain separately recognised in equity until the forecast transaction occurs;
- the hedge no longer meets the criteria for hedge accounting - in this case, the cumulative gain or loss on the hedging instrument recognised in other comprehensive income remain separately recognised in equity until the forecast transaction occurs;
- the forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument recognised in other comprehensive income are recognised in profit or loss.

If the Company revokes the designation, the cumulative gain or loss on the hedging instrument recognised in other comprehensive income remain separately recognised in equity until the forecast transaction occurs or is no longer expected to occur.

Net investment in a foreign operations is the amount of the reporting entity's interest in the net assets of that operations.

Hedges of a net investment in a foreign operations, including hedge of monetary item that is accounted for as a part of the net investment, shall be accounted for similarly to cash flow hedges:

- the portion of the gain or loss on the hedging instrument that is determined to be effective hedge shall be recognised in other comprehensive income; and
- the ineffective portion shall be recognised in profit or loss.

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment on a disposal or partial disposal of the foreign operations.

A hedge of a foreign currency risk of a firm commitment may be accounted for as a fair value hedge or cash flow hedge.

2.3.26. Lease

A lease is an agreement whereby a lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Particularly leases are the agreements defined in the Civil Code as well as rent and tenancy agreements concluded for a definite time.

Assets used under the finance lease, that is the agreement that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognised as assets of the lessee. Assets used under the operating lease, that is the agreement that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognised as assets of the lessor.

Transfer of risks and rewards within the finance lease agreements includes i.e. the following situations:

- the lease transfers ownership of the asset to the lessee by or at the end of the lease term,
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the economic life of the asset even if title is not transferred,
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and,
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

If the Company uses an asset based on the operating lease, the asset is not recognised in the statement of financial position and lease payments are recognised as an expense in profit or loss.

If the Company uses an asset based on the finance lease, the asset is recognised as an item of property, plant and equipment or an intangible asset. The leased asset is measured at the lower of its fair value or the present value of the minimum lease payments that is the present (discounted) value of payments over the lease term that the lessee is or can be required to make.

The present value of the minimum lease payments is recognised in the statement of financial position as financial liabilities with the division into short-term part (due no more than one year after the end of the reporting period) and long-term part (due more than one year after the end of the reporting period). The minimum lease payments are discounted and apportioned between finance charge and the reduction of the outstanding liability using interest rate implicit in the lease, if this is practicable to determine, if not, the lessee's incremental borrowing rate.

Depreciation methods for assets leased under the finance lease as well as methods of determining impairment losses in respect of assets leased under the finance lease are consistent with policies applied for the Company's owned assets. If there is a reasonable uncertainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the sorter of the lease term or useful life.

If the Company conveyed to another entity the right to use an asset under the operating lease, the asset is recognised based on the same policies as applied for the Company's owned assets, that is as an item of property, plant and equipment or an intangible asset.

Lease income from operating leases is recognised as revenues from sale.

If the Company conveyed to another entity the right to use an asset under the finance lease, the present value of the minimum lease payments and unguaranteed residual value is recognised in the statement of financial position as receivables with the division into short-term part and long-term part. The minimum lease payments and unguaranteed residual value are discounted using interest rate implicit in the lease, that is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments, the unguaranteed residual value and the initial direct costs to be equal to the fair value of the leased asset.

2.3.27. Contingent assets and contingent liabilities

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

Contingent assets are not recognised in the statement of financial position, however the respective information on the contingent asset is disclosed in the additional information to financial statements if the inflow of economic benefits is probable and if practicable is estimates the influence on financial results, as according to accounting principles for valuation of provisions.

Contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations or the amount of the obligation (liabilities) cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the statement of financial position however the information on contingent liabilities is disclosed in the financial statements unless the probability of outflow of resources embodying to economic benefits is remote.

Contingent liabilities due to business combinations are disclosed in the statement of financial position as provisions.

2.3.28. Subsequent events after reporting date

Subsequent events after reporting date are those events, favourable and unfavourable events, that occur between end of the reporting period and date of when the financial statements are authorized for issue. Two types of subsequent events can be identified:

- those, that provide evidence of conditions that existed as the end of the reporting period (adjusting events after the reporting period), and
- those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

The Company adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date.

The Company does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

3. The Management Board estimates and assumptions

The preparation of unconsolidated financial statements in accordance with IFRSs requires that the Management Board makes expert estimates and assumptions that affect the adopted methods and presented amounts of assets, liabilities and equity, revenues and expenses. The estimates and related assumptions are based on historical expertise and other factors regarded as reliable in given circumstances and their effects provide grounds for expert assessment of the carrying amount of assets and liabilities which is not based directly on any other factors.

In the matters of considerable weight, the Management Board might base its estimates on opinions of independent experts.

The estimates and related assumptions are verified on a regular basis. Changes in accounting estimates are recognised in the period when they are made only if they refer to that period or in the present and future periods if they concern both the present and future periods.

Actual results may differ from the estimated values.

Judgments, which have a significant impact on carrying amounts recognised in the financial statements were disclosed in the following notes:

- Financial instruments classification, the use of hedge accounting, methods of fair value measurement concerning financial instruments, nature and extent of risks related to financial instruments (note 30). The Management Board classifies the financial instruments depending on the purpose of the purchase and nature of the instrument and decides whether hedge accounting should be applied to decrease or neutralize risks. The fair value of financial instruments is measured using common practiced valuation models. Details of the applied estimates and sensitivity analysis has been presented in the above note.
- Leases classification (note 31). The Management Board classifies lease agreements as finance lease or operating lease on the basis of business nature analysis.

Estimates and assumptions, which have a significant impact on carrying amounts recognised in the unconsolidated financial statements were disclosed in the following notes:

- Impairment of property, plant and equipment and intangible asstes (note 5 and 6). The Management Board assess, if there is an objective indicator for impairment of assets or cash generating units. If there is an indicator for impairment the company assesses the recoverable amount of an asset or cash generating units by determing higher of fair value less cost to sell or value in use by applying the proper discount rate .
- Estimated economic useful lives of property, plant and equipment and intangible assets (note 5 and note 6). As described in note 2.3 the Company verifies economic useful lives of property, plant and equipment and intangible assets at least once a year. The effect of verification performed in the current reporting year was disclosed in note 5 and 6.
- Provisions (note 19). As described in note 2.3, recognition of provisions requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Details of applied estimates and their influence on the foregoing unconsolidated financial statements are disclosed in note 19.

(all amounts in PLN thousand)

- Contingent liabilities (note 33). As described in note 2.3, disclosing of contingent liabilities requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present and possible obligation at the end of reporting period.

4. Operating segments

Accounting principles used in reportable segments are in line with the Company's accounting principles, described in the note 2. The segments' result is the result generated by respective segments without the allocation of corporate functions, financial revenues and expenses, as well as income tax expenses. This information is passed on to chief operating decision makers responsible for allocation of resources and evaluation of segment results.

Revenues from transactions with external parties and transactions between segments are arm's length operations. External segment revenues presented to the Management Board are measured coherently to the method used in the unconsolidated statement of comprehensive income. The Management Board evaluates the results of segment activities based on the segment's operating result.

4.1. Revenue and financial result by segment

for the year ended 31 December 2010

	Refining Segment	Retail Segment	Petrochemical Segment	Corporate Functions	Adjustments	Total
Sales to external customers	44 275 102	13 989 286	3 894 402	56 791	-	62 215 581
Transactions with other segments	15 397 160	-	2 329 847	65 862	(17 792 869)	-
Total sales revenues	59 672 262	13 989 286	6 224 249	122 653	(17 792 869)	62 215 581
Total operating expenses	(57 333 084)	(13 337 433)	(5 950 203)	(626 426)	17 792 869	(59 454 277)
Other operating revenues	66 781	99 919	16 584	120 353	-	303 637
Other operating expenses	(21 294)	(108 071)	(3 486)	(175 263)	-	(308 114)
Segment profit/(loss) from operations	**2 384 665**	**643 701**	**287 144**	**(558 683)**	**-**	**2 756 827**
Financial revenues						527 993
Financial expenses						(458 496)
Profit before tax						**2 826 324**
Income tax expense						(469 197)
Net profit						**2 357 127**
Depreciation and amortisation	**440 320**	**192 004**	**165 872**	**72 321**	**-**	**870 517**
Additions to non-current assets	**591 012**	**193 112**	**1 412 933**	**59 311**	**-**	**2 256 368**

for the year ended 31 December 2009

	Refining Segment (restated data)	Retail Segment (restated data)	Petrochemical Segment	Corporate Functions	Adjustments (restated data)	Total
Sales to external customers	33 003 140	11 505 983	2 902 516	69 639	-	47 481 278
Transactions with other segments	29 442 641	-	5 096 278	45 138	(34 584 057)	-
Total sales revenues	62 445 781	11 505 983	7 998 794	114 777	(34 584 057)	47 481 278
Total operating expenses	(61 553 114)	(10 790 939)	(8 265 350)	(538 316)	34 584 057	(46 563 662)
Other operating revenues	382 751	57 657	69 876	128 144	-	638 428
Other operating expenses	(336 391)	(115 722)	(71 245)	(242 380)	-	(765 738)
Segment profit/(loss) from operations	**939 027**	**656 979**	**(267 925)**	**(537 775)**	**-**	**790 306**
Financial revenues						1 756 368
Financial expenses						(638 862)
Profit before tax						**1 907 812**
Income tax expense						(271 927)
Net profit						**1 635 885**
Depreciation and amortisation	**487 677**	**197 593**	**218 246**	**66 749**	**-**	**970 265**
Additions to non-current assets	**501 061**	**195 911**	**1 859 580**	**71 509**	**-**	**2 628 061**

Additions to non-current assets include purchases and other increases, which are widely described in notes 5 and 6.

(all amounts in PLN thousand)

4.2. Other segment data

4.2.1. Assets by operating segment

	as at 31/12/2010	as at 31/12/2009
Refining Segment	16 107 697	14 740 047
Retail Segment	3 263 192	3 199 077
Petrochemical Segment	5 979 633	4 642 808
Total segment assets	**25 350 522**	**22 581 932**
Corporate Functions	14 543 536	14 434 419
	39 894 058	**37 016 351**

including:

Non-current assets classified as held for sale

	as at 31/12/2010	as at 31/12/2009
Refining Segment	1 166	-
Retail Segment	276	-
Total segment assets	**1 442**	**-**
Corporate Functions	6 794	10 631
	8 236	**10 631**

Operating segments include all assets except for financial assets and tax assets. Assets used jointly by different segments are allocated based on revenues generated by particular segments.

4.2.2. Recognition and reversal of impairment allowances

	Recognition		Reversal	
	for the year ended 31/12/2010	for the year ended 31/12/2009	for the year ended 31/12/2010	for the year ended 31/12/2009
Refining Segment	(27 556)	(1 945)	25 504	1 164
Retail Segment	(57 182)	(69 328)	60 118	44 327
Petrochemical Segment	(9 521)	(10 115)	8 287	104
Impairment allowances by segment	**(94 259)**	**(81 388)**	**93 909**	**45 595**
Corporate Functions	(59 389)	(102 077)	61 726	118 774
	(153 648)	**(183 465)**	**155 635**	**164 369**

Impairment allowances of assets by segment include items recognised in statement of comprehensive income i.e.:

- receivables allowances;
- inventories allowances;
- non-current assets impairment allowances.

Recognition and reversal of allowances were performed in conjunction with revaluation of inventories, occurrence or extinction of indications in respect of overdue receivables, uncollectible receivables or receivables in court as well as potential impairment of property, plant and equipment, intangible assets and shares.

In 2010 allowances recognised in the refining segment concerned primarily decrease in value of inventories. Allowances recognised in the retail segment concerned primarily petrol stations. Allowances for idle assets and obsolete raw materials were recognised in corporate functions.

(all amounts in PLN thousand)

4.2.3. Geographical information

Revenues from sales

	for the year ended 31/12/2010	for the year ended 31/12/2009
Poland	37 580 556	29 279 745
Germany	209 082	358 953
Czech Republic	7 288 449	5 420 636
Lithuania, Latvia, Estonia	15 735 643	11 595 690
Other countries including:	1 401 851	826 254
- Denmark	887 853	522 910
- Ukraine	347 520	243 686
- Cyprus	104 407	2 876
	62 215 581	**47 481 278**

As at 31 December 2010 and 31 December 2009 the Company's non-current assets were located in Poland.

4.3. Revenues from sale of core products and services

	for the year ended 31/12/2010	for the year ended 31/12/2009 (restated data)
Refining Segment	**44 275 102**	**33 003 140**
Gasoline	3 691 794	3 478 414
Diesel fuel	9 439 773	7 851 873
Light heating oil	1 757 590	1 445 944
Jet A-1 fuel	903 051	567 072
Heavy heating oil	1 224 028	903 014
LPG	443 066	259 478
Oil	24 460 065	16 650 213
Other	2 355 735	1 847 132
Retail Segment	**13 989 286**	**11 505 983**
Gasoline	3 777 702	3 376 411
Diesel	7 412 904	5 623 603
LPG	968 266	812 289
Other	1 830 414	1 693 680
Petrochemical Segment	**3 894 402**	**2 902 516**
Ethylene	1 387 262	1 215 185
Propylene	1 131 989	805 454
Toluene	187 292	165 826
Benzene	198 740	164 099
Butadiene	262 807	128 260
Glycol	189 163	144 510
Phenol	128 689	98 636
Ortoxylene	15 317	48 474
Acetone	61 457	48 033
Other	331 686	84 039
Corporate Functions	**56 791**	**69 639**
Revenues	**62 215 581**	**47 481 278**

(all amounts in PLN thousand)

4.4. Information about major customers

In 2010, there were three major customers in the refining segment, whose revenues from sales amounted to PLN 29,344,777 thousand and individually exceeded 10% of revenues from sales to external customers, whereas in petrochemical segment there was one customer whose revenue from sales amounted to PLN 2,265,294 thousand.

In 2009, there were two major customers in the refining segment, whose revenues from sales amounted to PLN 16,916,248 thousand and individually exceeded 10% of revenues from sales to external customers, whereas in petrochemical segment there was one customer whose revenue from sales amounted to PLN 1,686,318 thousand.

5. Property, plant and equipment

	as at 31/12/2010	as at 31/12/2009
Land	267 014	267 666
Buildings and constructions	4 899 594	4 898 495
Machinery and equipment	2 047 817	2 172 334
Vehicles and other	206 888	195 568
Construction in progress	4 958 466	3 545 954
	12 379 779	**11 080 017**

(all amounts in PLN thousand)

Changes in property, plant and equipment by class:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2010	269 691	7 725 153	6 651 934	511 893	3 590 317	18 748 988
Acquisitions	33	-	14 379	9 718	2 203 027	2 227 157
Other increases	-	992	2 057	171	-	3 220
Reclassifications	12	385 253	292 090	80 266	(803 225)	(45 604)
Decreases	(290)	(45 181)	(127 999)	(54 586)	(3 454)	(231 510)
31 December 2010	**269 446**	**8 066 217**	**6 832 461**	**547 462**	**4 986 665**	**20 702 251**
Accumulated depreciation and impairment allowances						
1 January 2010	2 025	2 826 658	4 479 600	316 325	44 363	7 668 971
Depreciation	-	352 103	431 986	48 903	-	832 992
Other increases	-	906	447	128	-	1 481
Impairment allowances, net	407	8 187	813	219	(16 164)	(6 538)
recognition	407	56 665	4 962	716	851	63 601
reversal	-	(48 478)	(4 149)	(497)	(17 015)	(70 139)
Reclassifications	-	6 783	(6 613)	(170)	-	-
Decreases	-	(28 014)	(121 589)	(24 831)	-	(174 434)
31 December 2010	**2 432**	**3 166 623**	**4 784 644**	**340 574**	**28 199**	**8 322 472**
Gross book value						
1 January 2009	266 413	7 445 730	6 351 632	476 464	1 771 649	16 311 888
Acquisitions	-	21 050	22 902	19 825	2 552 018	2 615 795
Reclassifications	3 360	285 058	381 993	44 320	(728 559)	(13 828)
Decreases	(82)	(26 685)	(104 593)	(28 716)	(4 791)	(164 867)
31 December 2009	**269 691**	**7 725 153**	**6 651 934**	**511 893**	**3 590 317**	**18 748 988**
Accumulated depreciation and impairment allowances						
1 January 2009	3 182	2 455 896	4 052 532	283 888	38 484	6 833 982
Depreciation	-	365 695	522 980	47 634	-	936 309
Other increases	-	9 226	5 636	2 976	-	17 838
Impairment allowances, net	(1 157)	12 314	2 182	5 869	5 879	25 087
recognition	-	45 884	4 766	6 477	7 763	64 890
reversal	(1 157)	(33 570)	(2 584)	(608)	(1 884)	(39 803)
Decreases	-	(16 473)	(103 730)	(24 042)	-	(144 245)
31 December 2009	**2 025**	**2 826 658**	**4 479 600**	**316 325**	**44 363**	**7 668 971**
Net book value						
1 January 2010	**267 666**	**4 898 495**	**2 172 334**	**195 568**	**3 545 954**	**11 080 017**
31 December 2010	**267 014**	**4 899 594**	**2 047 817**	**206 888**	**4 958 466**	**12 379 779**
1 January 2009	**263 231**	**4 989 834**	**2 299 100**	**192 576**	**1 733 165**	**9 477 906**
31 December 2009	**267 666**	**4 898 495**	**2 172 334**	**195 568**	**3 545 954**	**11 080 017**

Impairment allowances of property, plant and equipment as at 31 December 2010 and 31 December 2009 amounted to PLN 162,669 thousand and PLN 169,207 thousand, respectively. The impairment allowances related primarily to petrol stations and idle assets.

Recognition and reversal of impairment allowances of property, plant and equipment are recognised in other operating activities.
The Company reviews economic useful lives of property, plant and equipment and adjustment to depreciation expense is made prospectively.

Should the rates from the previous year be applied depreciation expense for 2010 would be higher by PLN 57,563 thousand.

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2010 and as at 31 December 2009 amounted to PLN 1,881,735 thousand and PLN 2,165,968 thousand, respectively.

Net book value of property, plant and equipment retired from active use and not classified as held for sale as at 31 December 2010 and as at 31 December 2009 amounted to PLN 11,659 thousand and PLN 18,351 thousand, respectively.

(all amounts in PLN thousand)

Impairment allowances of property, plant and equipment retired from active use and not classified as held for sale as at 31 December 2010 and as at 31 December 2009 amounted to PLN 38,510 thousand and PLN 35,365 thousand, respectively.

The carrying amount of property, plant and equipment under the finance lease in 2010 and 2009 amounted to PLN 51,595 thousand and PLN 49,106 thousand, respectively. Detail division by class of class of non-current assets was disclosed in note 31.1.

6. Intangible assets

	as at 31/12/2010	as at 31/12/2009
Acquired patents, trade marks and licenses	131 041	124 353
Property rights	252 149	-
Other	-	4 379
	383 190	**128 732**

(all amounts in PLN thousand)

The changes of intangible assets were as follows:

	Patents, trade marks and licenses	Property rights	Other	Total
Gross book value				
1 January 2010	323 137	-	6 556	329 693
Acquisitions	142	29 069	-	29 211
Other increases	36	759 814	-	759 850
Reclassifications	43 764	-	-	43 764
Decreases	(3 320)	(521 197)	(4 390)	(528 907)
31 December 2010	**363 759**	**267 686**	**2 166**	**633 611**
Accumulated amortisation and impairment allowances				
1 January 2010	198 784	-	2 177	200 961
Amortisation	36 329	-	-	36 329
Other increases	32	28 410	-	28 442
Impairment allowances, net	(44)	-	-	(44)
recognition	-	-	-	-
reversal	(44)	-	-	(44)
Decreases	(2 383)	(12 873)	(11)	(15 267)
31 December 2010	**232 718**	**15 537**	**2 166**	**250 421**
Gross book value				
1 January 2009	279 958	-	14 296	294 254
Acquisitions	3 520	-	2 556	6 076
Other increases	-	374 675	-	374 675
Reclassifications	74 413	-	-	74 413
Decreases	(34 754)	(374 675)	(10 296)	(419 725)
31 December 2009 (restated data)	**323 137**	**-**	**6 556**	**329 693**
Accumulated amortisation and impairment allowances				
1 January 2009	196 616	-	12 305	208 921
Amortisation	32 848	-	-	32 848
Other increases	641	-	167	808
Impairment allowances, net	2 991	-	-	2 991
recognition	2 991	-	-	2 991
reversal	-	-	-	-
Decreases	(34 312)	-	(10 295)	(44 607)
31 December 2009	**198 784**	**-**	**2 177**	**200 961**
Net book value				
1 January 2010	**124 353**	**-**	**4 379**	**128 732**
31 December 2010	**131 041**	**252 149**	**-**	**383 190**
1 January 2009	**83 342**	**-**	**1 991**	**85 333**
31 December 2009	**124 353**	**-**	**4 379**	**128 732**

Impairment allowances of intangible assets as at 31 December 2010 and 31 December 2009 amounted to PLN 2,991 thousand and PLN 3,035 thousand, respectively.

Recognition and reversal of impairment allowances of intangible assets are recognised in other operating activities.

The Company reviews economic useful lives of intangible assets and adjustment of amortisation expense is made prospectively.

Should the rates from the previous year be applied, amortisation expense for 2010 would be higher by PLN 109 thousand.

(all amounts in PLN thousand)

The gross book value of all fully depreciated intangible assets still in use as at 31 December 2010 and as at 31 December 2009 amounted to PLN 154,055 thousand and PLN133,486 thousand, respectively.

Net book value of intangible assets with an indefinite useful life amounted to PLN 4,945 thousand as at 31 December 2010. There were no intangible assets with an indefinite useful life as at 31 December 2009. The Company incurred expenses related to registration of produced or imported chemicals (described in Regulation No 1907/2006 of the European Parliament and of the Council concerning the registration, evaluation, authorization and restriction of chemicals) - so called REACH. Due to the fact that registration is indefinite and period of production or import of particular chemicals is unknown, indefinite useful life was assumed.

Rights

CO_2 emission rights were granted on the basis of the Council of Ministers Regulation on the National Allocation Plan II (NAP II) resulting from the Kyoto Protocol dated 11 December 1997 to the United Nations Framework Convention on Climate Change, adopted by the European Union.

Change in CO_2 emission rights granted in 2010:

	Quantity (tonnes)	Value
Granted free of charge	6 579 846	373 469
Settled for the year 2009	(6 062 506)	(344 105)
Purchase/(Sale) net	4 120 000	222 126
As at 31 December 2010	**4 637 340**	**251 490**
Emission in 2010	6 226 348	338 018
Shortage	**(1 589 008)**	**(86 528)**
Planned coverage of the shortage by the use of the tranche granted for the next year	1 589 008	86 528

On 31 December 2010 market value of 1 EUA (European Union Allowances allocated to the installations according to the National Allocation Plan (NAP)) amounted to EUR 13.75.

As at 31 December 2010 the Company possessed origin certificates rights to energy produced in high-efficiency cogeneration sources (yellow energy rights) and origin certificates rights to renewable energy sources (green energy rights) of PLN 139 thousand and PLN 520 thousand, respectively.

7. Perpetual usufruct of land

	as at 31/12/2010	as at 31/12/2009
At the beginning of the period	90 209	86 446
Aquisition	-	6 190
Other increase	-	3
Reclassification	1 840	-
Depreciation	(1 196)	(1 108)
Other decrease	(41)	(1 322)
	90 812	**90 209**

As at 31 December 2010 and as at 31 December 2009 the Company recognised perpetual usufruct of land received under an administrative decision as off- balance sheet item of PLN 885,469 thousand and of PLN 871,603 thousand, respectively. Perpetual usufruct of land were fair valued in prior years. In 2010 and 2009 the costs connected with these rights were recognised in profit or loss of PLN 39,315 thousand and PLN 38,188 thousand, respectively.

(all amounts in PLN thousand)

8. Shares in related entities

	Seat	as at 31/12/2010	as at 31/12/2009	Company's share in capital / voting rights as at 31/12/2010	Company's share in capital / voting rights as at 31/12/2009	Principal activity
Subsidiaries and jointly controlled entities						
AB ORLEN Lietuva (formerly AB Mazeikiu Nafta)	Lithuania – Juodeikiai	6 510 686	6 510 686	100%	100%	processing of crude oil
UNIPETROL a.s.	Czech Republic – Praha	1 812 882	1 812 882	62.99%	62.99%	asset management of the Unipetrol Group
ORLEN Deutschland GmbH	Germany – Elmshorn	503 803	503 803	100%	100%	asset management and retail fuel sale
Basell ORLEN Polyolefins Sp. z o.o.	Poland – Plock	453 699	453 699	50%	50%	production, distribution and sale of polyolefins
Anwil S.A.	Poland – Wloclawek	257 206	176 200	90%	85%	production of nitrogen fertilizers, PVC
Rafineria Trzebinia S.A.	Poland – Trzebinia	109 424	74 503	86.35%	77.15%	processing of paraffin, production and trade in fuels and oil
ORLEN PetroCentrum Sp. z o.o.	Poland – Plock	83 631	83 631	100%	100%	liquid fuels trade
Rafineria Nafty Jedlicze S.A.	Poland – Jedlicze	64 000	64 000	75%	75%	processing of paraffin, production and trade in oil-derivates
ORLEN Oil Sp. z o.o.	Poland – Krakow	57 144	57 144	51.69%	51.69%	sale of chemical, refinery and petrochemical products
ORLEN Asfalt Sp. z o.o.	Poland – Plock	50 000	50 000	82.46%	82.46%	production and processing of refining crude oil products
ORLEN Upstream Sp. z o.o.	Poland - Warszawa	24 950	22 500	100%	100%	exploration and prospecting of hydrocarbon deposits, extraction of oil and natural gas
ORLEN Transport S.A.	Poland – Plock	39 362	39 362	100%	100%	transport services
Płocki Park Przemysłowo-Technologiczny S.A.	Poland – Plock	31 959	31 959	50%	50%	renting real estate for its own account and reinvoicing costs of energy and water
ORLEN Eko Sp. z o.o.	Poland – Plock	22 000	22 000	100%	100%	waste management, processing of non-metallic waste
Other subsidiaries		203 968	203 750			
Additional repayable payments to subsidiaries' equity		145 869	67 827			
Associates						
Polkomtel S.A.	Poland - Warszawa	1 159 190	1 159 190	24.39%	24.39%	rendering mobile telecommunication services
		11 529 773	**11 333 136**			

As at 31 December 2010 and 31 December 2009 impairment allowances of shares in related entities amounted to the same value of PLN 1,746,177 thousand.

9. Financial assets available for sale

	as at 31/12/2010	as at 31/12/2009
Quoted shares	**1 151**	**869**
Wodkan S.A.	1 151	869
Unquoted shares	**39 677**	**31 209**
Naftoport Sp. z o.o.	39 502	31 026
Other companies	175	183
	40 828	**32 078**

As at 31 December 2010 and 31 December 2009 impairment allowances of assets available for sale amounted to PLN 70,978 thousand and PLN 72,101 thousand, respectively.

(all amounts in PLN thousand)

10. Other long term assets

	as at 31/12/2010	as at 31/12/2009
Loans granted	39 603	41 082
Additional repayable payments to subsidiaries' equity	1 000	14 721
Financial assets	**40 603**	**55 803**
Other long-term receivables	200	300
Non-financial assets	**200**	**300**
	40 803	**56 103**

11. Impairment of non-current assets

As at 31 December 2010 the Company carried out an impairment test for particular Cash Generating Units (CGUs) where indicators for impairment as according to IAS 36 were identified. Tests results showed the lack of necessity to recognise of impairment allowances.

The analysis were performed based on financial projections for years 2011 – 2013 included in the approved Midterm Plan for the years 2009 – 2013 adjusted by approved budgets for 2011 and considering indispensable adjustments relating mainly to the range and effects of capital expenditures and effectiveness activities for the years 2012-2013. The period of CGU analysis was established on the basis on planned useful life of assets for the particular CGU.

Future financial performance is based on number of variables and assumptions, that are in respect of macroeconomic factors, such as foreign exchange rates, commodity prices, interest rates, partially out of the Company’s control. The change of these variables and assumptions might influence financial results of the impairment tests of non-current assets, and consequently might lead to changes in financial position and performance of the Company.

Information about recognitions and reversals of allowances in reference to each group of non-current non-financial assets is disclosed in note 5 and 6.

12. Inventories

	as at 31/12/2010	as at 31/12/2009
Raw materials	3 527 616	4 299 277
Work in progress	650 986	288 937
Finished goods	2 674 645	2 318 270
Merchandise	425 987	230 957
Spare parts	171 553	161 215
Inventories, net	**7 450 787**	**7 298 656**
Impairment allowances of inventories	12 200	7 288
Inventories, gross	**7 462 987**	**7 305 944**

(all amounts in PLN thousand)

The change of inventories impairment allowances

	for the year ended 31/12/2010	for the year ended 31/12/2009
Beginning of the period	7 288	245 551
Recognition	37 905	10 715
Reversal	(32 537)	(15 141)
Usage	(456)	(233 837)
	12 200	**7 288**

As a part of optimization processes, PKN ORLEN sold a part of its mandatory reserves of crude oil in March 2010 and December 2010 for the total amount of PLN 1,724,387 thousand.
Simultaneously, agreements regarding the gathering and keeping of the inventories with LAMBOURN Sp. z o.o. and Maury Sp. z o.o. have been signed. The companies will be providing inventories keeping services regarding the mandatory reserve of crude oil on PKN ORLEN's account.

PKN ORLEN will guarantee that inventories will be stored in its current location.

13. Trade and other receivables

	as at 31/12/2010	as at 31/12/2009
Trade receivables	5 381 445	3 918 827
Receivables due to sale of non-current non-financial assets	17 469	1 015
Other	22 030	42 958
Financial assets	**5 420 944**	**3 962 800**
Excise tax and fuel charge receivables	182 494	188 876
Other taxes, duty and social security receivables	121 910	187 495
Advances for construction in progress	28 904	150 009
Prepayments for deliveries	8 700	8 610
Prepayments	90 517	109 145
Non-financial assets	**432 525**	**644 135**
Receivables net	**5 853 469**	**4 606 935**
Receivables impairment allowance	277 776	281 684
Receivables, gross	**6 131 245**	**4 888 619**

As at 31 December 2010 and 31 December 2009 trade receivables and other receivables denominated in foreign currencies amounted to PLN 2,759,329 thousand and PLN 1,587,564 thousand, respectively.

Detailed division of receivables from related entities was disclosed in note 35.4.

Change in impairment allowances of trade and other receivables

	for the year ended 31/12/2010	for the year ended 31/12/2009
Beginning of the period	281 684	288 125
Recognition	51 342	104 574
Reversal	(53 777)	(107 053)
Usage	(1 473)	(3 962)
	277 776	**281 684**

(all amounts in PLN thousand)

Recognition and reversal of impairment allowances of trade and other receivables are presented in other operating activities as far as principle receivables are concerned and in financial activities as far as interest for delay in payments is concerned.

14. Other short-term financial assets

	as at 31/12/2010	as at 31/12/2009
Cash flow hedge instruments	**175 496**	**81 666**
foreign currency forwards (operating exposure)	34 312	46 439
foreign currency forwards (investing exposure)	728	13 812
interest rate swaps	-	21 415
commodity swaps	140 456	-
Derivatives not designated as hedge accounting	**811**	**18 304**
foreign currency forwards	811	-
foreign currency swaps	-	18 304
Embedded derivatives	**1 026**	**1 929**
foreign currency swap	1 026	1 929
Bonds	**-**	**1 004**
Loans granted	**295 670**	**17**
Cash pool	**33 064**	**25 005**
	506 067	**127 925**

15. Cash and cash equivalents

	as at 31/12/2010	as at 31/12/2009
Cash on hand and in bank	1 357 414	1 931 495
Cash in transit	38 646	32 908
	1 396 060	**1 964 403**

16. Non-current assets classified as held for sale

Net book value of non-current assets classified as held for sale as at 31 December 2010 and as at 31 December 2009 amounted to PLN 8,236 thousand and PLN 10,631 thousand, respectively.

In the Company, as at 31 December 2010 an as at 31 December 2009 non-current assets classified as held for sale include buildings and constructions, land, machinery and equipment and vehicles.

Impairment allowances of non-current assets classified as held for sale as at 31 December 2010 and as at 31 December 2009 amounted to PLN 1,672 thousand and PLN 1,074 thousand, respectively

17. Shareholders' equity

17.1. Share capital

In accordance with the Commercial Register, the share capital of PKN ORLEN S.A. as at 31 December 2010 amounted to PLN 534,636 thousand. It is divided into 427,709,061 ordinary shares with nominal value of PLN 1.25 each.

(all amounts in PLN thousand)

The share capital as at 31 December 2010 and 31 December 2009 consisted of the following series of shares:

	Number of shares issued		Number of shares authorized	
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
Series A	336 000 000	336 000 000	336 000 000	336 000 000
Series B	6 971 496	6 971 496	6 971 496	6 971 496
Series C	77 205 641	77 205 641	77 205 641	77 205 641
Series D	7 531 924	7 531 924	7 531 924	7 531 924
	427 709 061	**427 709 061**	**427 709 061**	**427 709 061**

In Poland, each new issue of shares is labelled as a new series of shares. All of the above series have the exact same rights.

As at 31 December 1996, in accordance with IAS 29.24 and 29.25 the share capital and share premium were revalued on a basis of monthly general price indices by PLN 691,802 thousand (PLN 522,999 thousand concerning revaluation of share capital and PLN 168,803 thousand concerning revaluation of share premium) and presented as share capital revaluation adjustment and share premium revaluation adjustment (note 17.3.).

	as at 31/12/2010	as at 31/12/2009
Share capital	534 636	534 636
Share capital revaluation adjustment	522 999	522 999
	1 057 635	**1 057 635**

17.2. Capital management policy

Capital management is performed on the PKN ORLEN S.A. Group ("Capital Group", "Group") level in order to protect the Group's ability to continue its operations as a going concern while maximizing returns for shareholders.

The Management Board monitors on the Group level following ratios:

- equity debt ratio (net financial leverage) which is defined as a ratio of average debt ratio to average equity. As at 31 December 2010 and 31 December 2009 this ratio amounted to 39.4% and 54.0%, respectively;
- net debt ratio to earnings before interest, taxes, depreciation and amortisation and plus dividends from Polkomtel S.A. As at 31 December 2010 and as at 31 December 2009 this ratio for the Group amounted to 1.38 and 2.52, respectively;
- dividend per ordinary shares – dividend amount depends on current finance condition of the Group. Detailed description of dividends policy is disclosed in note 17.6.

17.3. Share premium

Share premium results from surplus of issue price of shares B, C and D over their nominal value.

	as at 31/12/2010	as at 31/12/2009
Nominal share premium	1 058 450	1 058 450
Share premium revaluation adjustment	168 803	168 803
	1 227 253	**1 227 253**

(all amounts in PLN thousand)

17.4. Retained earnings

	as at 31/12/2010	as at 31/12/2009
Reserve capital	13 949 420	12 313 535
Privatization Fund created with the privatization of Petrochemia Plock S.A.	53 476	53 476
Revaluation reserve from revaluation of property, plant and equipment in 1995	612 304	621 005
Reserve capital from liquidated non-current assets revaluated in 1995	217 960	209 259
Net profit for the period	2 357 127	1 635 885
	17 190 287	**14 833 160**

17.5. Hedging reserve

Hedging reserve includes valuation and settlement of hedging instruments meeting the requirements of hedge accounting.

17.6. Suggested distribution of the Company's profit for 2010

The Dividend Policy of PKN ORLEN S.A. assumes setting recommended level of dividend in relation to free cash flows after realization of investment budget and optimization of capital structure ("Free Cash Flow to Equity" – FCFE). According to the applied methodology the Management Board considers the dividend payment (taking into account result from operations, capital investments and projected changes in the level of indebtedness in the following period) starting from the level of 50% of FCFE (set as the minimum in the Dividend Policy).

Considering current debt level, working capital initiatives and planned development investments, FCFE ratio is negative. The Management Board proposes to distribute the net profit for the year 2010 of PLN 2,357,127,065.35 to reserve capital of the Company.

17.7. Distribution of the profit for 2009

Pursuant to article 395 § 2 point 2 of the Commercial Act and § 7 section 7 point 3 of the Company's Articles of Association, the Ordinary General Shareholders Meeting of PKN ORLEN S.A., having analyzed the motion of the Management Board, has decided to distribute the net profit for the year 2009 of PLN 1,635,885,461.24 to the Company's reserve capital.

18. Interest-bearing loans and borrowings

	long-term		short-term		Total	
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
Bank loans	7 176 786	9 209 678	912 560	376 987	8 089 346	9 586 665
Borrowings	-	-	312	-	312	-
Debt securities	761 064	762 087	251 827	170 274	1 012 891	932 361
	7 937 850	**9 971 765**	**1 164 699**	**547 261**	**9 102 549**	**10 519 026**

(all amounts in PLN thousand)

18.1. Bank loans

– **by currency (translated into PLN)**

	as at 31/12/2010	as at 31/12/2009
PLN	22 231	574 202
USD	4 604 461	3 691 470
EUR	3 462 654	5 320 993
	8 089 346	**9 586 665**

- **by interest rate**

	as at 31/12/2010	as at 31/12/2009
WIBOR	22 231	574 202
LIBOR	4 604 461	3 691 470
EURIBOR	3 462 654	5 320 993
	8 089 346	**9 586 665**

The Company bases its financing on floating interest rate. Depending on the currency of financing these are WIBOR, LIBOR or EURIBOR increased by margin. The margin reflects the risk connected to financing of the Company and depends on net debt to EBITDA ratio (result from operations increased by depreciation and amortisation and dividend from Polkomtel S.A.) when long-term agreements are concerned.

At the end of the reporting period unused credit lines exceeded short-term liabilities less current receivables and cash and cash equivalents by PLN 2,737,523 thousand.

In the period covered by these unconsolidated financial statements as well as after the reporting date, there were no cases of violations of principal or interest payment nor breaches of other terms of agreements.

18.2. Borrowings

- **by currency (translated into PLN)**

	as at 31/12/2010	as at 31/12/2009
USD	228	-
EUR	84	-
	312	**-**

As at 31 December 2010 the Company presented liability relating to commission and interest on loans from ORLEN Finance AB within cash pool agreement amounting to PLN 312 thousand.

As at 31 December 2010 and 31 December 2009 there were no cases of violations of loans repayments as well as violation of borrowings agreements conditions.

Neither during the period covered by the foregoing unconsolidated financial statements, nor after the reporting date, there were no cases of violations of borrowings repayments in respect of both principle and interest or violation of other borrowings agreements conditions.

(all amounts in PLN thousand)

18.3. Debt securities

- **by currency (translated into PLN)**

	as at 31/12/2010	as at 31/12/2009
PLN	1 012 891	932 361
	1 012 891	**932 361**

- **by interest rate**

	Long-term floating rate bonds		Short-term fixed rate bonds	
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
Nominal value	750 000	750 000	252 300	170 500
Carrying amount	761 064	762 087	251 827	170 274
Expiration date	2012-02-27	2012-02-27	2011-03-02	2010-01-29

19. Provisions

	long-term		short-term		Total	
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
Environmental provision	242 049	232 801	24 510	24 391	266 559	257 192
Jubilee and post-employment benefits provision	121 004	112 221	20 415	17 843	141 419	130 064
Business risk provision	-	3 173	15 700	26 073	15 700	29 246
Shield programs provision	-	-	35 322	46 216	35 322	46 216
Provision for CO_2 emission	-	-	338 018	340 103	338 018	340 103
Other	-	-	78 605	16 631	78 605	16 631
	363 053	**348 195**	**512 570**	**471 257**	**875 623**	**819 452**

Change in provisions in 2010

	Environmental provision	Jubilee and post-employment benefits provision	Business risk provision	Shield programs provision	CO_2 emission provision	Other provision	Total
1 January 2010	**257 192**	**130 064**	**29 246**	**46 216**	**340 103**	**16 631**	**819 452**
Recognition	27 313	22 057	1 439	450	342 020	77 978	**471 257**
Usage	(16 139)	(10 702)	(3 325)	(9 923)	(344 105)	(13 451)	**(397 645)**
Reversal	(1 807)	-	(11 660)	(1 421)	-	(2 553)	**(17 441)**
31 December 2010	**266 559**	**141 419**	**15 700**	**35 322**	**338 018**	**78 605**	**875 623**

Change in provisions in 2009

	Environmental provision	Jubilee and post-employment benefits provision	Business risk provision	Shield programs provision	CO_2 emission provision	Other provision	Total
1 January 2009	**272 904**	**139 917**	**521 414**	**74 935**	**-**	**463**	**1 009 633**
Recognition	-	14 993	70 237	-	340 103	16 396	**441 729**
Reclassification	-	-	(710)	-	-	710	**-**
Usage	(14 209)	(14 001)	(555 584)	(28 507)	-	(308)	**(612 609)**
Reversal	(1 503)	(10 845)	(6 111)	(212)	-	(630)	**(19 301)**
31 December 2009	**257 192**	**130 064**	**29 246**	**46 216**	**340 103**	**16 631**	**819 452**

19.1. Environmental provision

The Company has legal obligation to clean contaminated land-water environment in the area of production plant in Plock, petrol stations and fuel warehouses.

The amount of the land reclamation provision was assessed by the Management Board on the basis of analysis of the independent experts. The amount of the provision is the best estimate of future expenditures based on the average level of costs necessary to remove contamination by facilities.

(all amounts in PLN thousand)

The potential future changes in regulations and common practice regarding environmental protection may influence the value of this provision in the future periods.

In 2010 environmental provision increased mainly due to assumption update: "petrol stations cleaning" unit cost, frequency ratio, the coefficient of contaminated soil, the quantity and volume of contaminated land and the discount rate. Should previous assumption be used environmental provision would be lower by PLN 8,420 thousand.

19.2. Provision for jubilee bonuses and post-employment benefits

The Company realizes the program of paying out the jubilee bonuses and post-employment benefits, which includes retirement and pension benefits in line with remuneration systems in force as well as other post-employment benefits. Provisions for jubilee bonuses and post-employment benefits are calculated individually for each entitled individual. The base for the calculation of provision for an employee is expected benefit which the Company is obliged to pay in accordance with internal regulation. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits as well as jubilee bonuses depends on the number of years of service and an employee's remuneration. The present value of these obligations is estimated at the end of each reporting year by an independent actuary and adjusted if there are any material indications impacting the value of the obligations. The provision amount equals discounted future payments, considering employee rotation and relate to the period ended at the last day of the reporting year.

Change in employee benefits obligations in 2010

	Jubilee bonuses provisions	Post-employment benefits	Total
1 January 2010	**75 431**	**54 633**	**130 064**
Current service cost	4 617	1 478	6 095
Interest expense	4 206	3 165	7 371
Actuarial gains/(losses)	8 737	(1 017)	7 720
Benefits paid	(9 174)	(657)	(9 831)
31 December 2010	**83 817**	**57 602**	**141 419**

Change in employee benefits obligations in 2009

	Jubilee bonuses provisions	Post-employment benefits	Total
1 January 2009	**81 565**	**58 352**	**139 917**
Current service cost	4 290	1 633	5 923
Interest expense	4 300	3 131	7 431
Actuarial (losses)	(3 680)	(3 980)	(7 660)
Benefits paid	(11 044)	(4 503)	(15 547)
31 December 2009	**75 431**	**54 633**	**130 064**

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2010 and 31 December 2009.

as at	Present value of employee benefits obligation
31/12/2010	141 419
31/12/2009	130 064
31/12/2008	139 917
31/12/2007	118 715
31/12/2006	116 233

(all amounts in PLN thousand)

Total expense recognised in profit or loss

	for the year ended 31/12/2010	for the year ended 31/12/2009
Current service cost	6 095	5 923
Interest cost	7 371	7 431
Actuarial gains/(losses)	7 720	(7 660)
	21 186	**5 694**

Costs of employee benefits are recognised in general and administrative expenses.

In 2010 provision for jubilee bonuses, retirement and pension benefits has changed due to assumption update mainly in range of discount rate and expected remuneration increase ratio. The changes relate mainly to discount rate and expected salary increase rate. Should the 2009 assumptions be used, the provision for employee benefits would be higher by PLN 4,781 thousand.

For updating the provision for employment benefits as at 31 December 2010, the Company adopted the following actuarial assumptions:

- discount rate – 5.50%;
- expected inflation rate – 2.50%;
- remuneration increase rates: starting from 3.79% in 2011up to 2.17% in 2014; 1.5% in 2015-2020 and 2.50% in following years.

Based on the existing regulations the Company is obliged to make contributions to the national retirement and pension plans. These expenses are recognised as employee benefits costs. There are no other obligations as far as employee benefits are concerned.

19.3. Business risk provision

Decrease of the business risk provision in 2010 results mainly from the verification of the status of administration and court proceedings concerning the perpetual usufruct of land.

19.4. Shield programs provision

Employee shield programs were launched to support the restructuring process conducted in the Company. The programs provide additional money considerations and trainings for employees with whom the employment agreement was or would be dissolved by mutual consent due to reasons independent from employees by virtue of the restructuring process.
Employees, who agreed to change the workplace are entitled to receive the relocation package comprising: relocation bonus and refund of relocation costs.

In 2010 shield program provision has changed due to assumptions update: average benefit cost and different number of employees entitled to restructuring program. Should the 2009 assumptions be used, shield program provision would be higher by PLN 11,997 thousand.

19.5. CO_2 emission provisions

The Company recognises provision for estimated CO_2 emissions in the reporting period. The cost of recognised provision is compensated with settlement of deferred income on CO_2 emission rights granted free of charge (detailed description is disclosed in note 2.3.6.1 and 30.6).

19.6. Other provisions

The increase of other provisions by PLN 61,974 thousand in 2010 results mainly from update of estimates relating to risk connected with proceedings led by OCCP (detailed description is disclosed in note 39.1.2 d).

(all amounts in PLN thousand)

20. Other long-term liabilities

As at 31 December 2010 and as at 31 December 2009 other long-term liabilities amounted to PLN 49,958 thousand and PLN 48,742 thousand, respectively. These liabilities referred to finance leases.

21. Trade and other liabilities

	as at 31/12/2010	as at 31/12/2009
Trade liabilities	7 374 176	5 399 716
Investement liabilities	728 634	1 073 884
Finance lease liabilities	5 052	2 930
Other	43 740	40 138
Financial liabilities	**8 151 602**	**6 516 668**
Payroll liabilities	95 577	105 833
Environmental liabilities	11 590	9 644
Special funds	5 729	5 729
Excise tax and fuel charge	990 666	1 004 273
Value added tax	748 264	504 776
Other taxation, duty, social security and other benefits	14 418	35 382
Holiday pay accruals	14 252	13 299
Other	6 760	-
Non-financial liabilities	**1 887 256**	**1 678 936**
	10 038 858	**8 195 604**

Trade and other liabilities denominated in foreign currencies amounted to PLN 6,700,709 thousand as at 31 December 2010 and PLN 5,142,422 thousand as at 31 December 2009.

22. Deferred income

	as at 31/12/2010	as at 31/12/2009
Unsettled points in loyalty program VITAY	61 537	64 565
Government grants	759	833
Other	2 313	1 672
	64 609	**67 070**

The VITAY is a loyalty program created for individual customers, operating on the Polish market since 14 February 2001. Purchases made by customers are granted with VITAY points that can be subsequently exchanged for VITAY gifts. From June 2006 fuel prize is available for customers in a form of a discount of fuel price.

The deferred income is recognised with regard to the unrealized amount of points recorded on customers' accounts and adjusts sales of finished goods. The deferred income is estimated on the basis of proportion of fuel and non-fuel gifts granted, total unrealized amount of points and current cost per one VITAY point.

22.1. Government grants

As at 31 December 2010 and as at 31 December 2009 government grants received from National Environmental Protection Fund and European Regional Development Fund amounted to PLN 759 thousand and PLN 833 thousand, respectively.

(all amounts in PLN thousand)

23. Other financial liabilities

	as at 31/12/2010	as at 31/12/2009
Cash flow hedge instruments	**98 263**	**52 417**
foreign currency forwards (operating exposure)	3 095	6 193
foreign currency forwards (investing exposure)	-	7 371
interest rate swaps	95 168	38 853
Derivatives not designated for hedge accounting	**47**	**418**
foreign currency forwards	47	418
Embedded derivatives	**1 314**	**40 826**
foreign currency swap	1 314	40 826
Cash pool	**123 788**	**133 947**
	223 412	**227 608**

24. Sales revenues

	for the year ended 31/12/2010	for the year ended 31/12/2009
Sales of finished goods	32 665 140	26 590 262
Sales of services	363 313	328 336
Revenues from sale of finished goods, net	**33 028 453**	**26 918 598**
Sales of merchandise	27 382 290	20 552 663
Sales of raw materials	1 804 838	10 017
Revenues from sale of merchandise and raw materials, net	**29 187 128**	**20 562 680**
	62 215 581	**47 481 278**

25. Operating expenses

Cost of sales

	for the year ended 31/12/2010	for the year ended 31/12/2009
Cost of finished goods sold	(28 490 809)	(24 202 263)
Cost of merchandise and raw materials sold	(28 554 753)	(19 956 919)
	(57 045 562)	**(44 159 182)**

(all amounts in PLN thousand)

Cost by kind

	for the year ended 31/12/2010	for the year ended 31/12/2009
Materials and energy	(27 994 854)	(23 163 195)
Cost of merchandise and raw materials sold	(28 554 753)	(19 956 919)
External services	(1 866 908)	(1 886 488)
Employee benefits costs	(581 728)	(572 161)
Depreciation and amortisation	(870 517)	(970 265)
Taxes and charges	(284 447)	(275 340)
Other	(466 655)	(906 696)
	(60 619 862)	**(47 731 064)**
Change in inventories	718 424	276 739
Cost of products and services for own use	139 047	124 925
Operating expenses	**(59 762 391)**	**(47 329 400)**
Distribution expenses	1 824 472	1 777 646
General and administrative expenses	584 243	626 834
Other operating expenses	308 114	765 738
Cost of finished goods, merchandise and raw materials sold	**(57 045 562)**	**(44 159 182)**

External services included as at 31 December 2010 and 31 December 2009 research expenditures of PLN 11,524 thousand and PLN 8,115 thousand, respectively .

Employee benefits costs

	for the year ended 31/12/2010	for the year ended 31/12/2009
Payroll expenses	(486 397)	(479 036)
Social security expenses	(71 118)	(71 535)
Other employee benefits expenses	(24 213)	(21 590)
	(581 728)	**(572 161)**

26. Other operating revenues and expenses

26.1. Other operating revenues

	for the year ended 31/12/2010	for the year ended 31/12/2009
Profit on sale of non-current non-financial assets	63 003	448 335
Reversal of provisions	17 415	8 392
Reversal of receivables impairment allowances	43 277	93 413
Reversal of impairment allowances of property, plant and equipment and intangible assets	67 997	39 912
Penalties and compensations earned	57 475	9 698
Other	54 470	38 678
	303 637	**638 428**

(all amounts in PLN thousand)

As a consequence of sale of CO_2 emission rights in the year ended 31 December 2010 and ended 31 December 2009 the line "profit from sale of non – current non – financial assets" included PLN 1,728 thousand and PLN 407,094 thousand, respectively.

26.2. Other operating expenses

	for the year ended 31/12/2010	for the year ended 31/12/2009
Loss on sale of non-current non-financial assets	(17 498)	(22 509)
Recognition of provisions	(111 182)	(426 736)
Recognition of receivables impairment allowances	(45 143)	(95 195)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(64 200)	(67 881)
Costs and losses on removal of damages and breakdowns	(10 585)	(11 510)
Other	(59 506)	(141 907)
	(308 114)	**(765 738)**

In 2010, the presentation of provision recognition for estimated CO_2 emissions in the reporting period was changed. Detailed information is disclosed in note 2.2.3.

Detailed information regarding impairment allowances is disclosed in notes 5, 6 and 13.

27. Financial revenues and expenses

27.1. Financial revenues

	for the year ended 31/12/2010	for the year ended 31/12/2009
Interest	27 465	27 879
Foreign exchange gain	-	760 431
Dividends	384 731	617 328
Profit from sale of shares and other securities	77	12 587
Decrease in receivables impairment allowances	10 500	13 640
Settlement and valuation of financial instruments	94 850	320 791
Investment impairment allowances	1 324	2 262
Other	9 046	1 450
	527 993	**1 756 368**

(all amounts in PLN thousand)

27.2. Financial expenses

	for the year ended 31/12/2010	for the year ended 31/12/2009
Interest	(273 813)	(348 026)
Foreign exchange loss	(135 002)	-
Increase in receivables impairment allowances	(6 199)	(9 379)
Settlement and valuation of financial instruments	(33 896)	(269 289)
Investment impairment allowances	(201)	(295)
Other	(9 385)	(11 873)
	(458 496)	**(638 862)**

According to IAS 23 Borrowing costs, the Company capitalizes as a part of purchase price or construction costs those borrowing costs which could be assigned to the acquisition, construction or production of a qualifying asset. In 2010 and 2009 capitalized borrowing costs amounted to PLN 151,816 thousand and PLN 105,157 thousand, respectively. Capitalization rate used to calculate capitalised borrowing costs in 2010 and 2009 amounted to 3.22% and to 3.25%, respectively.

28. Income tax expense

	for the year ended 31/12/2010	for the year ended 31/12/2009
Current tax	(392 962)	(196 165)
Deferred tax	(76 235)	(75 762)
	(469 197)	**(271 927)**

28.1. The difference between income tax expense recognised in profit or loss and the amount calculated based on profit before tax

	for the year ended 31/12/2010	for the year ended 31/12/2009
Profit before tax	**2 826 324**	**1 907 812**
Corporate income tax for 2010 and 2009 by the valid tax rate	(537 002)	(362 484)
Current tax adjustment relating to previous years	12 921	(5 128)
Dividends received	73 031	117 292
Provisions not deductible for tax purposes	(10 694)	(16 010)
Receivables impairment allowances	(3 742)	(3 585)
Other	(3 711)	(2 012)
Income tax expense	**(469 197)**	**(271 927)**
Effective tax rate	**17%**	**14%**

(all amounts in PLN thousand)

28.2. Deferred tax

	as at 31/12/2010	as at 31/12/2009
Deferred tax assets		
Impairment allowances	382 200	382 907
Provisions and accruals	176 946	184 553
Unrealized foreign exchange differences	109 551	145 540
Other	25 055	28 520
	693 752	**741 520**
Deferred tax liabilities		
Investment relief	55 421	64 705
Difference between carrying amount and tax base of property, plant and equipment	364 803	320 470
Difference in contribution in kind	42 870	42 870
Other	31 972	27 054
	495 066	**455 099**
Deferred tax assets, net	**198 686**	**286 421**

28.3. Change in deferred tax assets, net

	as at 31/12/2010	as at 31/12/2009
Beginning of the period	286 421	389 190
Deferred tax recognized in income statement	(76 236)	(75 762)
Deffered tax asset recognized in other comprehensive income	(11 499)	(27 007)
	198 686	**286 421**

(all amounts in PLN thousand)

29. Explanatory notes to statement of cash flows

Explanation of differences between changes in the statement of financial position captions and changes presented in the statement of cash flows

	as at 31/12/2010	as at 31/12/2009
Change in other non-current assets and trade receivables and other receivables presented in the statement of financial position	**(1 231 234)**	**(419 204)**
Change in investment receivables	(143 091)	(253 844)
advances for construction in progress	(121 105)	(319 541)
receivables from sale of non-current non-financial assets	16 454	(2 203)
receivables from sale of non-current financial assets	(36 961)	26 818
non-current loans granted	(1 479)	41 082
Change in prepayments regarding bank commisions	(22 373)	42 176
Other	(408)	234
Change in receivables in the statement of cash flows	**(1 397 106)**	**(630 638)**
Change in inventories presented in the statement of financial position	**(152 131)**	**(968 374)**
Reclassification of inventories from/to property, plant and equipment	19 026	(53 027)
Change in inventories in the statement of cash flows	**(133 105)**	**(1 021 401)**
Change in trade liabilities and other liabilities presented in the statement of financial position	**1 844 470**	**3 273 371**
Change in investment liabilities	345 250	(526 026)
Compensation of investment liabilities with investment receivables	18 209	-
Change in financial liabilities due to finance lease	(3 338)	-
Other	3 658	(8 597)
Change in liabilities in the statement of cash flows	**2 208 249**	**2 738 748**
Change in provisions presented in the statement of financial position	**56 171**	(190 181)
Usage of prior year provision for CO_2 emission rights	340 103	-
Change in provisions in the statement of cash flows	**396 274**	**(190 181)**

In cash flows from operating activities for 2010, PLN (388,062) thousand has been presented in line other, relating mainly to change in:

- deferred income relating to investing activities as a result of CO_2 emission rights granted free of charge amounting to PLN (373,469) thousand,
- receivables/liabilities relating to derivatives not designated as hedge accounting amounting to PLN (8,947) thousand.

(all amounts in PLN thousand)

30. Financial instruments

30.1. Financial instruments by category and class

Financial assets

as at 31 December 2010

		Financial instruments by category					
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held-to-maturity	Financial assets available for sale	Hedging financial instruments	Total
Financial instruments by class	Note						
Quoted shares	9				1 151		1 151
Unquoted shares	9				39 677		39 677
Trade receivables	13		5 381 445				5 381 445
Receivables from sale of non-current non-finacial assets	13		17 469				17 469
Loans granted	10, 14		335 273				335 273
Additinal repayable payments to subsidiaries' equity	10, 13		15 721				15 721
Embedded derivatives and hedging instruments	14	1 837				175 496	177 333
Cash and cash equivalents	15		1 396 060				1 396 060
Cash pool	14		33 064				33 064
Other	10, 13		7 509				7 509
		1 837	**7 186 541**	**-**	**40 828**	**175 496**	**7 404 702**

as at 31 December 2009

		Financial instruments by category					
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held-to-maturity	Financial assets available for sale	Hedging financial instruments	Total
Financial instruments by class	Note						
Quoted shares	9				869		869
Unquoted shares	9				31 209		31 209
Bonds	14			1 004			1 004
Trade receivables	13		3 918 827				3 918 827
Receivables from sale of non-current non-finacial assets	13		1 015				1 015
Loans granted	10, 14		41 099				41 099
Additinal repayable payments to subsidiaries' equity	10, 13		15 721				15 721
Embedded derivatives and hedging instruments	14	20 233				81 666	101 899
Cash and cash equivalents	15		1 964 403				1 964 403
Cash pool	14		25 005				25 005
Other	10, 13		42 258				42 258
		20 233	**6 008 328**	**1 004**	**32 078**	**81 666**	**6 143 309**

(all amounts in PLN thousand)

Financial liabilities

as at 31 December 2010

		Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Financial instruments by class	Note					
Debt securities	18		1 012 891			1 012 891
Loans	18		8 089 346			8 089 346
Borrowings	18		312			312
Finance lease	20, 21				55 010	55 010
Trade liabilities	21		7 374 176			7 374 176
Investment liabilities	21		728 634			728 634
Embedded derivatives and hedging instruments	23	1 361		98 263		99 624
Cash pool	23		123 788			123 788
Other	21		43 740			43 740
		1 361	**17 372 887**	**98 263**	**55 010**	**17 527 521**

as at 31 December 2009

		Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Financial instruments by class	Note					
Debt securities	18		932 361			932 361
Loans	18		9 586 665			9 586 665
Finance lease	20, 21				51 672	51 672
Trade liabilities	21		5 399 716			5 399 716
Investment liabilities	21		1 073 884			1 073 884
Embedded derivatives and hedging instruments	23	41 244		52 417		93 661
Cash pool	23		133 947			133 947
Other	21		40 138			40 138
		41 244	**17 166 711**	**52 417**	**51 672**	**17 312 044**

30.2. Gain/(Losses) gains due to financial instruments recognised in financial revenues and expenses by category

	for the year ended 31/12/2010	for the year ended 31/12/2009
Financial assets and financial liabilities at fair value through profit or loss	74 500	156 771
Borrowings and receivables	66 850	34 547
Financial assets held-to-maturity	4	349
Financial assets available for sale	390 023	649 485
Financial liabilities measured at amortized cost	(445 635)	384 343
Hedging financial instruments	(13 546)	(105 270)
Assets and liabilities excluded from the scope of IAS 39	(2 699)	(2 719)
Financial revenues and expenses net	**69 497**	**1 117 506**

(all amounts in PLN thousand)

30.3. Financial expenses due to impairment of financial assets by class of financial instruments

	for the year ended 31/12/2010	for the year ended 31/12/2009
Quoted shares	(190)	(273)
Unquoted shares	(11)	(22)
Trade receivables	(6 199)	(9 373)
	(6 400)	**(9 668)**

Financial assets impairment allowances are disclosed in note 9 and 26.

30.4. Fair value of financial instruments

	as at 31/12/2010		as at 31/12/2009	
	fair value	carrying amount	fair value	carrying amount
Financial assets				
Quoted shares	1 151	1 151	869	869
Unquoted shares	not applicable	39 677	not applicable	31 209
Bonds	-	-	1 004	1 004
Trade receivables	5 381 445	5 381 445	3 918 827	3 918 827
Receivables from sale of non-current non-finacial assets	17 469	17 469	1 015	1 015
Loans granted	335 273	335 273	41 099	41 099
Additional repayable payments to subsidiaries' equity	15 721	15 721	15 721	15 721
Embedded derivatives and hedging instruments	177 333	177 333	101 899	101 899
Cash and cash equivalents	1 396 060	1 396 060	1 964 403	1 964 403
Cash pool	33 064	33 064	25 005	25 005
Other	7 496	7 509	42 244	42 258
	7 365 012	**7 404 702**	**6 112 086**	**6 143 309**
Financial liabilities				
Debt securities	1 013 509	1 012 891	932 646	932 361
Loans	8 100 409	8 089 346	9 604 192	9 586 665
Borrowings	312	312	-	-
Finance lease	47 672	55 010	45 972	51 672
Trade liabilities	7 374 176	7 374 176	5 399 716	5 399 716
Investment liabilities	728 634	728 634	1 073 884	1 073 884
Embedded derivatives and hedging instruments	99 624	99 624	93 661	93 661
Cash pool	123 788	123 788	133 865	133 947
Other	43 740	43 740	40 138	40 138
	17 531 864	**17 527 521**	**17 324 074**	**17 312 044**

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2010 and 31 December 2009 the Company held unquoted shares in entities, which fair value cannot be measured reliably. There are no active markets for these entities and no comparable transactions in the same type of instruments. Shares were recognised in the Company’s statement of financial position at acquisition cost less impairment allowances in total amount of PLN 39,677 thousand. As at the end of the reporting period there are no binding decisions relating to ways and dates of disposal of these assets.

(all amounts in PLN thousand)

Methods applied in determining fair values of financial instruments recognised in the statement of financial position at fair value (fair value hierarchy)

The Company measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities quoted on active markets. As compared to the previous reporting period the Company has not changed valuation methods concerning derivative instruments.

Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative. Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognised in a current year profit or loss.

Fair value of shares quoted on active markets is determined based on market quotations (so called Level 1). In other cases, fair value is determined based on other input data, apart from market quotations, which are directly or indirectly possible to observe (so called Level 2).

Fair value hierarchy

		as at 31/12/2010		as at 31/12/2009	
	Note	Level 1	Level 2	Level 1	Level 2
Financial assets					
Quoted shares	9	1 151	-	869	-
Embedded derivatives and hedging instruments	14	-	177 333	-	101 899
		1 151	**177 333**	**869**	**101 899**
Financial liabilities					
Embedded derivatives and hedging instruments	23	-	99 624	-	93 661
		-	**99 624**	**-**	**93 661**

During the reporting period and comparative period there were no reclassifications of financial instruments between Level 1 and Level 2.

Methods and assumptions applied in determining fair values of financial instruments recognised in the statement of financial position at amortized cost

Purchased bonds, loans granted, financial liabilities due to debt securities issued as well as loans liabilities and other financial instruments are measured at fair value using discounted cash flows method. Future cash flows are discounted using discount factors calculated based on market interest rates as at 31 December 2010 and 31 December 2009 according to quotations of 1-month and 3-month interest rates, respectively increased by margins proper for particular financial instruments.

	as at 31/12/2010	as at 31/12/2009
WIBOR	3.6600%	4.2700%
EURIBOR	0.7820%	0.7000%
LIBOR	0.2606%	0.2506%
PRIBOR	0.9900%	1.5400%

30.5. Hedge accounting

Cash flow hedge accounting

The Company hedges its cash flows from operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rates (EUR/PLN for sale and USD/PLN for purchases and sale). The Company hedges also cash flows from investment projects against changes in exchange rates (EUR/PLN, JPY/PLN). Foreign exchange forwards are used as hedging instruments.

PKN ORLEN hedges its cash flows from crude oil settlements using commodity swaps.

(all amounts in PLN thousand)

The Company hedges cash flows from interest payments connected with issuance of bonds in PLN as well as cash flows from interest payments concerning external financing in EUR and USD, using interest rate swaps (IRS).

Hedging transactions, settlement and fair value measurement of which influence the unconsolidated foregoing financial statements were concluded in the years 2007-2010.

The fair value of derivative instruments designated as hedging instruments according to cash flow hedge accounting, planned realization date and planned date of the influence on the result of the hedged cash flow:

– fair value which will be recognised in profit or loss at the realization date:

	as at 31/12/2010	as at 31/12/2009
Planned realization date of hedged cash flows		
Currency operating exposure		
2010	-	40 246
2011	31 216	-
Interest rate exposure		
till 1 Q 2012	(7 132)	(5 154)
till 1 Q 2014	(88 036)	(12 284)
Commodity risk exposure		
1 Q 2011	126 092	-
1 Q 2012	14 364	-
	76 504	**22 808**

In case of interest rate exposure the Company uses interest rate swap to hedge the bonds issued in PLN. The swap is based on 6-month WIBOR, whereas interest rate swaps hedging loans in EUR and USD are based on 1-month EURIBOR and 1-month LIBOR.

– net fair value which will be included in the cost of non-current assets and recognised in profit or loss through depreciation charges in the following periods:

	as at 31/12/2010	as at 31/12/2009
Planned realization date of hedged cash flows		
2010 (currency investment exposure)	-	6 440
2011 (currency investment exposure)	728	-
	728	**6 440**

In 2010 as a result of settlement of hedge instruments the amount of PLN 12,876 thousand was recognised as an increase of equity and included:

– in profit or loss as sales of finished goods – PLN 26,369 thousand, in foreign exchange differences surplus – PLN (4,300) thousand and in financial expenses - interest expense of PLN (61,212) thousand, and
– in construction in progress – PLN 52,019 thousand.

In 2009 as a result of settlement of hedge instruments the amount of PLN (198,662) thousand decreased the equity and included:

– in profit or loss as sales of finished goods - PLN (313,143) thousand, foreign exchange differences surplus – PLN 9,776 thousand, financial expense as interest expense - PLN 261 thousand, and
– in construction in progress - PLN 104,444 thousand.

In order to hedge cash flows designated as hedge accounting, ineffective part was recognised in profit or loss for the year 2010 and 2009 of PLN (1,622) thousand and (1,162) thousand respectively.

(all amounts in PLN thousand)

Limitations in application of cash flows hedge accounting

For the transactions concluded and settled in the same quarter the Company does not apply hedge accounting. The settlement result is recognised in the current period profit or loss.

The fair value of transactions hedging cash flows connected with realization of investment projects against changes in exchange rates (USD/PLN, EUR/PLN), for which hedge accounting is not applied due to separation of embedded derivatives for these contracts, amounted to PLN 765 thousand as at 31 December 2010 and PLN 17,886 thousand as at 31 December 2009.

30.6. Financial risk management

The Company is exposed particularly to the following financial risks:

- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rate risk, risk of changes in commodity prices, risk of changes in CO_2 emission rights prices).

Credit risk

Within its trading activity the Company sells products and services with deferred payment term, which may result in the risk that customers will not pay for the Company's receivables from sales of products and services. In order to minimize credit risk and working capital the Company manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types.

The established payment term of receivables connected with the ordinary course of sales amounts to 14-30 days.

Each non-cash customer is individually assessed with regard to credit risk. A portion of trade receivables is insured within an organized trade credit insurance program. Trade receivables are monitored by finance departments on a regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures implemented as described by the obliging procedures.

Based on the analysis of receivables the customers were divided into two groups:

- I group – customers with good or very goods history of cooperation in the current year;
- II group – other customers.

The division of not past due receivables based on the criterion described above:

	as at 31/12/2010	as at 31/12/2009
Group I	4 437 540	3 112 359
Group II	755 373	662 782
	5 192 913	**3 775 141**

The ageing analysis of financial assets past due, but not impaired as at the end of the reporting period:

	as at 31/12/2010	as at 31/12/2009
Current receivables		
Up to 1 month	222 683	170 783
1-3 months	3 909	10 243
3-6 months	1 439	6 628
Above a year	-	5
	228 031	**187 659**

The concentration of risk connected with trade receivables is limited due to large number of customers with trade credit dispersed in various sectors of the Polish, German, Czech and Lithuanian economy.

In order to reduce the risk of recoverability of trade receivables, the Company receives from its customers securities such as: bank and issuance guarantees, blockade of cash on bank accounts, mortgages and bills of exchange.

Credit risk associated with cash and cash equivalents and bank deposits is assessed by the Company as low.
All entities in which the Company's free cash and cash equivalents are deposited, are operating in financial sector. They include domestic banks and branches of foreign banks which have the highest short-term credit credibility (78% of deposited cash and cash equivalents) or good credibility (22% of deposited cash and cash equivalents).
Rating A-1 in Standard & Poor's, F1 in Fitch and Prime-1 in Moodys are treated as the highest credibility, while A-2 in Standard & Poor's, F2 in Fitch and Prime-2 in Moodys are considered to be good credibility.

Credit risk associated with granted intercompany borrowings is assessed by the Company as low, due to the fact that agreements are concluded with companies having secure both financial and operating position. The Company does not identify any threat in settling the obligation resulting from borrowings agreements.

Credit risk associated with assets resulting from the positive valuation of derivative instruments is assessed by the Company as low, due to the fact that all transactions are concluded with banks having high credit rating. One of the factors significant for bank choice is rating on the level not lower than A.

The measure of credit risk is the maximum exposure to credit risk for each class of financial instruments.

Maximum credit risk exposure in relation to particular financial assets by category is equal to their carrying amount.

The Management Board believes that the risk of impaired financial assets is reflected by recognition of an impairment allowance. Information about impairment allowances of particular classes of financial assets is disclosed in the note 30.3.

Liquidity risk

The Company is exposed to liquidity risk associated with the relation between short term liabilities and current assets.

As at 31 December 2010 and as at 31 December 2009 current assets to short-term liabilities ratio (current ratio) amounted to 1.27 and 1.47, respectively.

Detailed information regarding loans is disclosed in the note 18.

In 2006 the Company entered into Bond Issuance Program in order to ensure additional sources of cash required to secure financial liquidity. Bond issues enable the Company to go out beyond traditional bank market and to gain cash from other financial institutions, companies or natural persons. For the Company the cost of gaining cash is competitive as compared to bank loans. Bond Issuance Program is also used to manage liquidity within the domestic and foreign entities of the Group.

In order to optimize financial expenses, the Company applies systems of cash concentration – as at 31 December 2010 there are 20 entities of the Group in PLN cash pooling system and 3 entities of the Group in international cash pooling system.

As at 31 December 2010 and 31 December 2009 the maximum possible indebtedness due to signed loans agreements amounted to PLN 13,864,316 thousand and PLN 13,801,010 thousand, respectively. As at 31 December 2010 and 31 December 2009 there were available to use PLN 5,526,852 thousand and PLN 4,098,045 thousand, respectively.

(all amounts in PLN thousand)

Maturity analysis for financial liabilities:

	as at 31/12/2010					
	up to 1 year	1-3 years	3-5 years	above 5 years	Total	Carrying amount
Debt securities						
Floating rate bonds - undiscounted value	251 827	761 366	-	-	1 013 193	1 012 891
Loans received - undiscounted value	873 328	6 588 768	-	641 394	8 103 490	8 089 346
Borrowings received - undiscounted value	312	-	-	-	312	312
Finance lease	5 052	10 795	8 948	30 215	55 010	55 010
Trade liabilities	7 374 176	-	-	-	7 374 176	7 374 176
Investment liabilities	728 634	-	-	-	728 634	728 634
Embedded derivatives and hedging instruments						
Gross settled amounts	4 456	-	-	-	4 456	4 456
Net settled amounts	-	7 132	88 036	-	95 168	95 168
Cash pool	123 788	-	-	-	123 788	123 788
Other	43 740	-	-	-	43 740	43 740
	9 405 313	**7 368 061**	**96 984**	**671 609**	**17 541 967**	**17 527 521**

As at 31 December 2010 loans and borrowings received – undiscounted value included PLN 849,586 thousand relating to long-term liabilities reclassified to short-term liabilities due to repayment date of part of borrowing in 2011.

	as at 31/12/2010					
	up to 1 year	1-3 years	3-5 years	above 5 years	Total	Carrying amount
Debt securities						
Floating rate bonds - undiscounted value	170 274	762 272	-	-	932 546	932 361
Loans received - undiscounted value	376 987	8 361 131	-	865 994	9 604 112	9 586 665
Finance lease	2 930	6 302	6 942	35 498	51 672	51 672
Trade liabilities	5 399 716	-	-	-	5 399 716	5 399 716
Investment liabilities	1 073 884	-	-	-	1 073 884	1 073 884
Embedded derivatives and hedging instruments						
Gross settled amounts	54 808	-	-	-	54 808	54 808
Net settled amounts	-	5 155	33 698	-	38 853	38 853
Cash pool	133 865	-	-	-	133 865	133 947
Other	40 138	-	-	-	40 138	40 138
	7 252 602	**9 134 860**	**40 640**	**901 492**	**17 329 594**	**17 312 044**

Market risks

The Company is exposed to currency risks, interest rate risks and risks of changes in commodity prices and CO_2 emission rights prices.

PKN ORLEN manages market risks resulting from the above mentioned factors using market risk management policy, which describes methods of management of each of the exposures by defining process of exposure measurement, hedge parameters, hedging instruments, as well as time horizon of hedging. Market risk management is realized by designated organization units under supervision of the Financial Risk Committee of PKN ORLEN and the Management Board of PKN ORLEN.

The objective of market risk management process is to reduce the unfavourable effects of changes in market risk factors on the cash flow and financial results in the short and medium term.

Market risk management is conducted using hedging strategies based on derivatives. Derivatives are used solely to reduce the risk of changes in fair value and risk of changes in cash flows. PKN ORLEN applies only those instruments which can be measured independently, using standard valuation models for each instrument.

As far as market valuation of the instruments is concerned, the Company relies on information obtained from market leading banks, brokers and information services. Transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

– **Currency risk**

The Company is exposed to currency risk resulting from current receivables and short-term liabilities, cash and cash equivalents, investment expenditures as well as liabilities from loans and bonds issued denominated in foreign currencies as well as from future planned cash flows from sales and purchases of refinery and petrochemical products and merchandise. Currency risk exposure is hedged by forward and swap instruments.

For USD/PLN exchange rate there is partially a natural hedge, as revenues from sale of products denominated in USD are offset by costs of crude oil purchases denominated in the same currency. In case of EUR/PLN exchange rate, revenues from sales of petrochemical products are denominated in this currency. For this group natural hedge exists to the limited extent (for example interest on loans denominated in EUR, part of investment purchases).

(all amounts in PLN thousand)

Currency structure of financial instruments as at 31 December 2010:

Financial instruments by class	EUR	USD	JPY	Other	Total after translation to PLN
Financial assets					
Trade receivables	1 101	918 939	-	-	2 728 187
Receivables from sale of non-finacial non-current assets	2 907		-	-	11 514
Loans granted	10 559	99 004	-	-	335 273
Embedded derivatives and hedging instruments	3 801	54 503	19 987	-	177 333
Cash and cash equivalents	3 509	257 486	67 051	-	779 555
Other	4 674		-	-	18 511
	26 551	**1 329 932**	**87 038**	**-**	**4 050 373**
Financial liabilities					
Loans	874 341	1 553 409	-	-	8 067 426
Borrowings	21	77	-	-	312
Trade liabilities	18 499	2 161 173	-	299	6 480 246
Investment liabilities	24 471	16 938	2 000 541	97	220 462
Embedded derivatives and hedging instruments	13 575	13 067	-	-	92 493
	930 907	**3 744 664**	**2 000 541**	**396**	**14 860 939**

Sensitivity analysis for currency risk

The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2010) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (PLN) on profit before tax and hedging reserve:

Influence of financial instruments on profit before tax				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(539 083)	-15%	539 083
USD/PLN	+15%	(1 095 349)	-15%	1 095 349
JPY/PLN	+15%	(10 568)	-15%	10 568
		(1 645 000)		**1 645 000**

Influence of financial instruments on hedging reserve				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(145 942)	-15%	145 942
USD/PLN	+15%	(59 230)	-15%	59 230
JPY/PLN	+15%	6 771	-15%	(6 771)
		(198 401)		**198 401**

Total				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(685 025)	-15%	685 025
USD/PLN	+15%	(1 154 579)	-15%	1 154 579
JPY/PLN	+15%	(3 797)	-15%	3 797
		(1 843 401)		**1 843 401**

(all amounts in PLN thousand)

Currency structure of financial instruments as at 31 December 2009:

Klasy instrumentów finansowych	EUR	USD	JPY	Pozostałe	Razem po przeliczeniach na PLN
Aktywa finansowe					
Dostawy i usługi	5 015	548 402	-	-	1 583 713
Pożyczki udzielone	10 004		-	-	41 099
Instrumenty wbudowane i zabezpieczające	7 590	19 965	447 123	-	101 899
Środki pieniężne	50 844	191 367	103	74	754 421
Pozostałe	327		-	-	1 344
	73 780	**759 734**	**447 226**	**74**	**2 482 476**
Zobowiązania finansowe					
Kredyty	1 295 347	1 295 116	-	-	9 013 013
Dostawy i usługi	4 962	1 586 836	-	92	4 543 652
Zobowiązania inwestycyjne	56 722	57 815	6 498 365	34	598 710
Instrumenty wbudowane i zabezpieczające	15 668	6 075	220 929	-	88 507
	1 372 699	**2 945 842**	**6 719 294**	**126**	**14 243 882**

Sensitivity analysis for currency risk

The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2009) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (PLN) on profit before tax and hedging reserve:

	Influence of financial instruments on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(724 739)	-15%	724 739
USD/PLN	+15%	(885 986)	-15%	885 986
JPY/PLN	+15%	(30 110)	-15%	30 110
		(1 640 835)		**1 640 835**

	Influence of financial instruments on hedging reserve			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(109 247)	-15%	109 247
USD/PLN	+15%	3 157	-15%	(3 157)
JPY/PLN	+15%	39 427	-15%	(39 427)
		(66 663)		**66 663**

	Total			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(833 986)	-15%	833 986
USD/PLN	+15%	(882 829)	-15%	882 829
JPY/PLN	+15%	9 317	-15%	(9 317)
		(1 707 498)		**1 707 498**

Variations of currency rates described above were calculated based on historical volatility of particular currency rates and analysts' forecasts.

Sensitivity of financial instruments for currency risk was calculated as a difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using assumed increases/decreases in currency rates. In case of derivative instruments, the influence of currency rate variations on fair value was examined at constant level of interest rates.

(all amounts in PLN thousand)

For other currencies the sensitivity of financial instruments is not material from the Company's point of view.

– **Interest rate risk**

The Company is exposed to risk of volatility of cash flows due to interest rates resulting from borrowings, cash pool facility, bank loans and debt securities based on floating interest rates and derivative transactions hedging risk of cash flows.

Subject to interest rate risk:

Financial instruments by class	WIBOR		LIBOR		EURIBOR		Total	
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
Selected financial assets								
Bonds	-	1 004	-	-	-	-	-	1 004
Loans granted	-	-	293 456	-	41 817	41 099	335 273	41 099
Additional repayable payments to subsidiaries' equity	1 000	14 721	-	-	-	-	1 000	14 721
Embedded hedging instruments	-	-	-	21 415	-	-	-	21 415
Cash pool	33 064	25 005	-	-	-	-	33 064	25 005
Other	200	300	-	-	-	-	200	300
	34 264	**41 030**	**293 456**	**21 415**	**41 817**	**41 099**	**369 537**	**103 544**
Selected financial liabilities								
Debt securities	761 064	762 087	-	-	-	-	761 064	762 087
Loans	22 231	574 202	4 604 462	3 691 469	3 462 653	5 320 993	8 089 346	9 586 664
Borrowings	-	-	229	-	83	-	312	-
Embedded hedging instruments	7 131	5 154	35 070	-	52 967	33 699	95 168	38 853
Cash pool	123 788	133 947	-	-	-	-	123 788	133 947
	914 214	**1 475 390**	**4 639 761**	**3 691 469**	**3 515 703**	**5 354 692**	**9 069 678**	**10 521 551**

Sensitivity analysis for interest rate risk

The influence of financial instruments on profit before tax and hedging reserve due to changes in significant interest rates:

Interest rate	Assumed variation		Influence on profit before tax		Influence on hedging reserve		Total	
	as at 31/12/2010	as at 31/12/2009	2010	2009	2010	2009	2010	2009
WIBOR	+50	+50	(4 364)	(7 146)	2 062	3 938	(2 302)	(3 208)
LIBOR	+50	+50	(21 556)	(18 457)	19 635	23 810	(1 921)	5 353
EURIBOR	+50	+50	(17 105)	(26 399)	21 062	28 890	3 958	2 491
			(43 025)	**(52 002)**	**42 759**	**56 638**	**(265)**	**4 636**
WIBOR	-50	-50	4 364	7 146	(2 084)	(3 895)	2 280	3 251
			4 364	**7 146**	**(2 084)**	**(3 895)**	**2 280**	**3 251**

The above interest rates variations were calculated based on observations of interest rates fluctuations in the current and prior year annual reporting period as well as on the basis of available forecasts.

The Company does not take the potential decrease of EURIBOR and LIBOR into consideration because of low level of EURIBOR and LIBOR interest rates as at the end of 2010 and market forecast.

The Company measures derivatives at fair value.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2010 and 31 December 2009. The influence of interest rates changes was presented on annual basis.

The sensitivity of financial instruments for interest rate risk was calculated as arithmetic product of the balance of the statements of financial position items sensitive to interest rates (excluding derivatives) multiplied by adequate variation of interest rate. In case of derivatives, the influence of interest rate variations on fair value was examined at constant level of currency rates.

(all amounts in PLN thousand)

– **Risk of changes in commodity prices**

The Company is exposed to changes in commodity prices due to:

– expenditures concerning purchases of crude oil for processing, which depend on the volume of processing, the level of inventory as well as the level of crude oil price on the global market and differential;
– revenues from sales of refinery and petrochemical products, which depend on the volume of sales, the level of product prices on the global market.

As at 31 December 2010 there were financial instruments hedging the risk of changes in commodity prices relating to the hedge of cash flows resulting from crude oil settlements.

Sensitivity analysis for risk of changes in crude oil prices

The influence of derivative instruments hedging reserve due to changes in crude oil prices as at 31 December 2010:

	Increase of brent price	Total influence	Decrease of brent price	Total influence
USD/BBL	+27%	559 591	-27%	(559 591)
		559 591		**(559 591)**

Variations of oil prices described above were calculated based on historical volatility of crude oil prices for 2010 and analysts' forecasts.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2010. The influence of changes in crude oil prices was presented on annual basis.

In case of derivatives, the influence of crude oil prices variations on fair value was examined at constant level of currency rates.

The carrying amount of hedging instruments for crude oil deliveries as at 31 December 2010 amounted to PLN 140,456 thousand.

As at 31 December 2009 the Company did not have any hedging instruments for commodity prices risk.

– **Risk of changes in CO_2 emission rights prices**

PKN ORLEN was granted CO_2 emission rights on the basis of the binding legal regulations resulting from the Kyoto Protocol to the United Nations Framework Convention on Climate Change, adopted by the European Union, followed by the decision of the Council of Ministers.

Every year the Company performs verification of the number of rights and defines methods of systematic balancing of identified shortages/surpluses either in the way of intercompany transactions or through market term and spot transactions depending on the situation.

In 2010 the Company sold surpluses of CO_2 emission rights and concluded forward purchase transactions.

More information relating to CO_2 emission rights is disclosed in note 6.

31. Leases

31.1. The Company as a lessee

Operating lease

As at 31 December 2010 and 31 December 2009, the Company possessed non-cancellable operating lease agreements as a lessee, related to leased building and caverns. Agreements include clauses concerning contingent rent payables and they can be prolonged.

(all amounts in PLN thousand)

The total lease payments related to non-cancellable operating lease agreements recognised as expenses in profit or loss in 2010 and 2009 amounted to PLN 36,463 thousand and PLN 38,097 thousand, respectively.

Future minimum lease payments under operating lease agreements mentioned above as at 31 December 2010 and 31 December 2009 were as follows:

	as at 31/12/2010	as at 31/12/2009
Up to 1 year	30 519	36 590
Between 1 and 5 years	107 281	135 600
Above 5 years	39 438	80 714
	177 238	**252 904**

Finance lease

As at 31 December 2010 and 31 December 2009 the Company possessed finance lease agreements as a lessee. The finance lease agreements relate mainly to the lease of petrol stations and cars.

In concluded lease agreements, the general conditions of finance lease are effective. There are no special restrictions nor additional terms of contract. The finance lease contracts do not contain any clauses concerning contingent rent payables and provide purchase option. In most cases there is renewal option.

Future minimum lease payments under finance lease agreements mentioned above as at 31 December 2010 and 31 December 2009 were as follows:

	as at 31/12/2010	as at 31/12/2009
Up to 1 year	7 668	5 577
Between 1 and 5 years	27 730	22 308
Above 5 years	37 081	45 637
	72 479	**73 522**

Present value of future minimum lease payments under finance lease agreements mentioned above as at 31 December 2010 and 31 December 2009 was as follows:

	as at 31/12/2010	as at 31/12/2009
Up to 1 year	5 052	2 930
Between 1 and 5 years	23 385	19 384
Above 5 years	26 573	29 358
	55 010	**51 672**

The difference between future minimum lease payments and their present value results from discounting of lease payments with discount rate proper for each agreement.

As at 31 December 2010 and 31 December 2009 the net carrying amount for each class of assets under finance lease was as follows:

	as at 31/12/2010	as at 31/12/2009
Property, plant and equipment	**51 595**	**49 106**
Buildings and constructions	42 738	49 106
Vehicles and other	8 857	-

(all amounts in PLN thousand)

Disclosures required by IFRS 7 regarding finance lease are disclosed in the note 30 and presented together with other financial instruments.

31.2. The Company as a lessor

Operating lease

As at 31 December 2010 and 31 December 2009 the Company did not possess non-cancellable operating lease agreements as a lessor.

Finance lease

As at 31 December 2010 and 31 December 2009 the Company did not possess finance lease agreements as a lessor.

32. Investment expenditures incurred and commitments resulting from signed investment contracts

Investment expenditures incurred in 2010 and 2009 amounted to PLN 2,256,368 thousand and PLN 2,628,061 thousand including environmental protection related investments of PLN 148,100 thousand and PLN 191,758 thousand, respectively.

As at 31 December 2010 and 31 December 2009 future liabilities resulting from contracts signed until this date amounted to PLN 405,131 thousand and PLN 801,946 thousand, respectively.

33. Contingent liabilities

	as at 31/12/2009	increases/ (decreases)	as at 31/12/2010
Antitrust proceedings of the OCCP	18 500	-	18 500
Legal cases	5 653	14 297	19 950
	24 153	**14 297**	**38 450**

34. Guarantees and sureties

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2010 and 31 December 2009 amounted to PLN 1,224,802 thousand and PLN 852,846 thousand, respectively.

Guarantees granted as at 31 December 2010 and 31 December 2009 amounted to PLN 90,602 thousand and PLN 112,978 thousand, respectively.

35. Related party transactions

35.1. Information on material related party transactions concluded by the Company or subsidiaries on other than market terms

In 2010 the Company did not conclude any material related party transactions on other than market terms.

35.2. Transactions with members of the Management Board and Supervisory Board, their spouses, siblings, descendants and ascendants and their other relatives

In 2010 and 2009 the Company did not grant to managing and supervising persons and their relatives any advances, borrowings, loans, guarantees and sureties, or concluded other agreements obliging to render services to the Company and its related parties.

(all amounts in PLN thousand)

In 2010 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

35.3. Transactions concluded by the Company with related parties through the key executive personnel.

In 2010 members of the Company's key executive personnel did not conclude any transactions with related parties. In 2009 members of the Company's key executive personnel concluded transactions with related parties concerning sales of PLN 371,125 thousand, purchases of PLN 163,597 thousand and receivables of PLN 17,536 thousand.

35.4. Transactions and balance of settlements of the Company with related parties

for the year ended 31 December 2010

	Subsidiaries	Jointly controlled entities	Associates	Total related parties
Sales	30 389 314	2 409 238	18 533	32 817 085
Purchases	3 923 260	21 669	116 310	4 061 239
Financial income	7 170	2 279	37	9 486
Dividend	236 335	-	146 658	382 993
Financial expense	9 983	-	4	9 987
Trade and other receivables	3 389 151	511 487	2 365	3 903 003
Other short-term financial assets	326 705	2 029	-	328 734
Receivables impairment allowances	379	-	4	383
Trade and other liabilities	768 775	2 823	15 735	787 333
Other non-current assets	1 000	39 603	-	40 603
Other long-term liabilities	20 144	-	-	20 144

for the year ended 31 December 2009

	Subsidiaries	Jointly controlled entities	Associates	Total related parties
Sales	22 263 291	1 835 038	18 155	24 116 484
Purchases	3 101 129	15 636	121 564	3 238 329
Financial income	6 622	1 344	8	7 974
Dividend	199 106	-	418 222	617 328
Financial expense	9 331	-	3	9 334
Trade and other receivables	2 298 565	426 008	2 665	2 727 238
Other short-term financial assets	25 005	17	-	25 022
Receivables impairment allowances	477	3	18	498
Trade and other liabilities	630 545	1 837	10 738	643 120
Other non-current assets	14 721	41 082	-	55 803
Other long-term liabilities	24 617	-	-	24 617

The above transactions with related parties include sale and purchase of refinery and petrochemical products, crude oil and purchases of repair, transportation and other services. Settlements with related parties include trade and financial receivables and liabilities.

The Company granted sureties to related parties as at 31 December 2010 and 31 December 2009 of PLN 1,377,887 thousand and PLN 744,273 thousand, respectively.

(all amounts in PLN thousand)

36. Remuneration, together with profit-sharing paid and due or potentially due to the Management Board, Supervisory Board and other members of the key executive personnel in accordance with IAS 24

The Management Board, the Supervisory Board and other key executive personnel remuneration includes short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits paid, due and potentially due during the period.

	as at 31/12/2010	as at 31/12/2009
Remuneration of the Management Board Members	**12 140**	**12 297**
- remuneration and other benefits	6 040	6 031
- bonus paid for previous year	5 454	2 873 [1)]
- remuneration of the Management Board Members performing the function in the previous years	646 [2)]	3 393 [3)]
Bonus potentially due to the Management Board Members, to be paid in next year [4)]	**5 454**	**5 454**
Remuneration and other benefits of the key executive personnel	**31 522**	**32 584**
Remuneration of the Supervisory Board Members	**1 213**	**1 210**

1) for the period of performing the function from 7 June till 31 December 2008
2) payment in respect of court settlement regarding the remuneration for 2005
3) concerns the period of performing the function from 1 January till 6 June 2008
4) bonus estimated assuming full realization of the Management Board Members objectives

36.1. Principles of incentives for the key executive personnel (including Members of the Management Board)

In 2010 PKN ORLEN's key executive personnel was participating in MBO bonus system (management by objectives). The regulations applicable to PKN Management Board, executive directors and other key positions have certain basic common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set in the beginning of the bonus period by the Supervisory Board for the Management Board Members and, by the Management Board Members for the key executive personnel members. The Bonus Systems are structured in such a way so as to promote the cooperation between individual employees in view to achieve the best possible result for the PKN ORLEN. The goals so set are qualitative or quantitative and are accounted for at the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations.

In 2010 new bonus regulation for executive directors came into force. Implemented changes increased flexibility and motivate capability of a system as well as simplified its functionality.

Additionally, the new bonus standards were developed for executive directors reporting directly to Management Board, to enter into force starting from 2011. The basic assumption for implementing the changes is to make the bonus system matching the PKN ORLEN Management Board's goals and to enhance the highest management's liability for the results generated by the Group.

36.2. Remuneration regarding non-competition clause and dissolution of the contract as a result of demission from the position held

Agreements concluded between PKN ORLEN S.A. and managing persons constitute that the persons are obliged to obey a non-competition clause for 6 or 12 months, starting from the date of a termination or expiration of the contract. In the period members of the Management Board are entitled to receive remuneration in amount of six or twelve monthly basic remuneration, paid in equal monthly instalments.

(all amounts in PLN thousand)

Furthermore contracts include remuneration payments in case of dissolution of the contract as a result of dismission from the position held. Remuneration amounts to six or twelve basic monthly remuneration.

37. Remuneration arising from the agreement with the entity authorized to conduct audit

In the period covered by the foregoing financial statements the Company's Auditor is KPMG Audyt Sp. z o.o. According to the agreement concluded on 30 May 2005 with subsequent amendments for the period 2005-2010 KPMG Audyt Sp. z o.o. executes interim reviews and annual audits of unconsolidated and consolidated financial statements.

	for the year ended 31/12/2010	for the year ended 31/12/2009
Fees payable to KPMG Audyt Sp. z.o.o.	**1 892**	**1 843**
for the audit of the annual financial statement	647	615
for the reviews of the financial statements	572	725
for other attestation services	673	503

Fees include net amounts due or paid to the entity authorised to audit financial statements for:

- audit of unconsolidated and consolidated financial statements,
- review of interim unconsolidated and consolidated financial statements,
- related services connected with audit and review of unconsolidated and consolidated financial statements, but not included in fees mentioned above.

38. Employment structure

	as at 31/12/2010	as at 31/12/2009
Average employment in persons		
Blue collar workers	2 008	2 002
White collar workers	2 502	2 621
	4 510	**4 623**
Employment in persons		
Blue collar workers	2 033	1 945
White collar workers	2 480	2 537
	4 513	**4 482**

39. Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies

As at 31 December 2010 the Company was a party in the following significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies.

39.1. Proceedings in which the PKN ORLEN S.A. acts as a defendant

39.1.1. Proceedings with the total value exceeding 10% of the Issuer's equity

Risk connected with the disposal of assets and liabilities related to purchase of Unipetrol shares

On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert Holding a.s. against PKN ORLEN S.A. regarding the payment of CZK 19,464,473,000 with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN S.A. The claim regarded the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s.

The Court of Arbitration ruling dated 21 October 2010 ended the least of four arbitration proceedings initiated by Agrofert Holding a.s. related to purchase of UNIPETROL shares by PKN ORLEN S.A.

Agrofert Holdings a.s. had the right to issue a motion to revoke the sentence of the Court of Arbitration until 4 February 2011. As at the date of publication of these unconsolidated financial statements, PKN ORLEN S.A. did not receive a copy of the sentence.

39.1.2. Other significant proceedings with the total value not exceeding 10% of the Issuer's equity

a) Tax proceedings in Rafineria Trzebinia S.A.

As at 31 December 2010 at the end of the reporting period in Rafineria Trzebinia S.A. following tax proceedings and controls are in progress:

- **Tax proceedings concerning determination of excise tax liability for the period May – September 2004.**

As a result of the Customs Office proceeding, the excise tax liability for the period May-September 2004 was set at the amount of PLN 100 million. The Management Board of Rafineria Trzebinia filed an appeal against the discussed decisions. In December 2005 the Director of the Customs Chamber in Kraków (Director of the CC) kept the first instance authority's decisions in force. In February 2006, as a result of the motion of Rafineria Trzebinia, the Director of the CC suspended execution of the complained decisions until the case is decided by the Woivodship Administrative Court in Kraków (WAC).

According to the sentence dated 12 November 2008 the WAC inclined to the appeal of Rafineria Trzebinia and overruled the decisions of the Director of the CC. On 16 January 2009 the Director of the Customs Chamber in Kraków filed an annulment the above sentence to the Supreme Administrative Court (SAC) in Warsaw.

On 25 September 2009 the SAC overruled the annulment of the Director of the Customs Chamber in Kraków, according to above the sentence as at 12 November 2008 is legally binding, which dismissed the decision of Director of the Customs Chamber and decided to revoke them to reexamination. On 25 September 2009 the first instance authority (Head of the Customs Office - HCO) issued decisions determining the amount of excise tax liability for the period: May - August 2004 of approximately PLN 80 million. On 14 October 2009 Rafineria Trzebinia S.A. raised a complaint to the Director of the Customs Chamber in Kraków regarding the above mentioned decision. On 22 January 2010 the Director of the Customs Chamber in Kraków dismissed entirely the first instance authority's decisions and decided to revoke them to reexamination by this authority.

In respect of excise tax liability for September of 2004 on 25 August 2009 the Supreme Administrative Court overruled the annulment of the Director of the Customs Chamber in Kraków concerning the determination of excise tax liability for this period. On 24 November 2010 Head of the Customs Office in Kraków issued once again a decision determining the amount of excise tax liability for September 2004 of app. PLN 38 million. On 15 December 2010 Rafineria Trzebinia S.A. raised a complaint to the Director of the Customs Chamber in Kraków regarding the above mentioned decision.

On 18 February 2011 Rafineria Trzebinia S.A. obtained a notification from District Court in Chrzanów the Real- estate Register Department about registration of compulsory security deposit mortgage due to excise tax liability for September 2004 of PLN 36,334 thousand.

- **Control proceedings in respect of reliability of calculation and settlement of excise tax and value added tax for 2002, 2003 and for the period January - April 2004.**

In January 2005, the Director of the Tax Control Office in Kraków ("TCO") instituted control proceedings against Rafineria Trzebinia in respect of reliability of the stated tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2002 and 2003. In May 2006, tax control proceedings relating to the period January - April 2004 were instituted.

On 5 December 2007 the Director of the Tax Control Office in Kraków issued a result of tax control proceedings in respect of excise tax for 2002, acknowledging settlements made by Rafineria Trzebinia as correct.
In July 2008 Rafineria Trzebinia received a protocol prepared by the TCO concerning audit of the Company's accounting books for the tax year 2003 determining potential additional excise tax liability of PLN 73,408 thousand and protocol from audit of the accounting books for the period January – April 2004 determining potential additional excise tax liability of PLN 126,150 thousand. Rafineria Trzebinia raised reservations and additional explanations to these protocols.

On 27 November 2008 a result of the fiscal control proceedings was issued in respect of reliability of stated tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2003. On 5 December 2008 the respective result was issued for the period January – April 2004.
In the issued results it was stated, that tax books are unreliable in the part concerning deductible excise tax of PLN 1,585 thousand included in the excise tax return August 2003.

Rafineria Trzebinia S.A. appealed against the decision and settled the amount of contentious liability together with interest. On 30 January 2009 the Director of the Tax Chamber in Kraków repealed the decision sued by Rafineria Trzebinia S.A. and decided to revoke it to reexamination by the first instance authority.

On 9 March 2009 Rafineria Trzebinia S.A. raised a complaint to the Woivodship Administrative Court in Kraków against the above mentioned decision of the Director of the Customs Chamber in respect of faulty formulation of legal justification.

As at the date of publication of these unconsolidated financial statements, the above proceeding is suspended.

- **Tax proceedings in respect of determination of value added tax amount for the period January - August 2005.**

In October 2006 the Head of the Tax Office for Małopolska ("TOM") instituted tax control proceedings in respect of determination of value added tax liability for the period January, February and April – August 2005. Additionally, in February 2007 the Head of the TOM in Kraków instituted tax control proceedings relating to March 2005.

On 12 January 2009 the Head of the TOM in Kraków issued a decision on cancellation of tax proceedings regarding value added tax liability for the above mentioned period.

The amounts included in this note relate to the principal tax liabilities. As at the date of preparation of these financial statements, the final outcome of the above control proceedings as well as potential impact of the proceedings extended to other periods are not yet known.

Based on opinions of recognised tax advisors, the Board of Directors believes, that the above mentioned proceedings are likely to give satisfactory outcome for Rafineria Trzebinia S.A. Therefore, in these unconsolidated financial statements for 2010 and 2009, no provision to cover potential liabilities have been recognised.

b) The proceedings of the Energy Regulatory Office ("ERO") in Rafineria Trzebinia S.A.

In March 2006 the Chairman of the Energy Regulatory Office instituted proceedings in respect of imposing a fine in connection with violating of concession terms regarding production of liquid fuels. The essence of the proceedings regards potential direct application of the provisions of the European Union directives while on the one hand effective 1 May 2004 Poland became a member of the European Union whereas on the other hand no regulations of the Minister of Economy in respect of quality requirements for biofuels were available.

In September 2006 the Chairman of the ERO imposed a fine of PLN 1 million to Rafineria Trzebinia. The decision of the Chairman of the ERO was repealed in April 2007 by the sentence of the Court of Competition and Consumers

Protection in Warsaw ("CCCP"). In November 2007 the Court of Appeals in Warsaw dismissed the appeal of the Chairman of the ERO and sentenced the reimbursement of court proceedings costs in favor of Rafineria Trzebinia. The sentence is legally binding.

In March 2008 the Representative of the Chairman of the ERO submitted an annulment, which on 4 September 2008 was accepted for recognition by the Supreme Court. In its sentence dated 5 November 2008 the Supreme Court repealed the sentence of the Court of Appeals in Warsaw and revoked it to reexamination by this Court. In the assessment of the Supreme Court it is necessary to carry out evidence proceedings in respect of quality norms specific for biofuels produced in the contentious period. At the same time the Supreme Court stated that concession possessed by Rafineria Trzebinia S.A. entitled to production and trade in biofuels. As at 25 March 2009 the Court of Appeals, following the decision of the Supreme Court concerning the necessity to carry out evidence proceedings, repealed the sentence of CCCP District Court and revoked the case to its reexamination.

In the verdict dated 7 June 2010 the District Court in Warsaw – Court of Competition and Consumer Protection discharged the proceedings. In October 2010 the ERO appealed against this verdict.

As at the of publication of these unconsolidated financial statements the outcome of the case is not yet known.

c) Power transfer fee in settlements with ENERGA – OPERATOR S.A. (legal successor of Zakład Energetyczny Płock S.A.)

As at the date of preparation of these unconsolidated financial statements PKN ORLEN participates in two court proceedings concerning the settlement of system fee with ENERGA OPERATOR S.A. The subject of the court proceedings is regulated by the Regulation of the Minister of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations. According to the paragraph 36 of the above regulation, the method of settlement of system fee, constituting an element of a power transfer fee, was changed. According to the paragraph 37 of the above regulation, a different method of system fee calculation was introduced.

– **Court proceedings in which PKN ORLEN acts as a defendant**

The subject of the court proceedings concerns settlement of the contentious system fee for the period from 5 July 2001 to 30 June 2002. The obligation to settle power transfer fee results from the electricity sale agreement between ENERGA – OPERATOR S.A. and PKN ORLEN which was signed without determining contentious issues concerning system fee. The case was regarded as a civil case so contentious system fee should be judged by an appropriate court.

In 2003 ENERGA – OPERATOR S.A. called on PKN ORLEN to compromise agreement and then filed a law suit against PKN ORLEN. In 2004 the Court issued a decision obliging PKN ORLEN to pay a liability connected with the so-called system fee to ENERGA – OPERATOR S.A. of PLN 46,232 thousand. In its objection to the precept PKN ORLEN filed for entire dismissal of the suit.

On 25 June 2008 the District Court pronounced its verdict and dismissed the suit of ENERGA – OPERATOR S.A. entirely as well as sentenced the reimbursement of court proceeding costs of PLN 31 thousand in favor of PKN ORLEN. In September 2008 ENERGA – OPERATOR S.A. appealed against the above sentence.

On 10 September 2009, having analyzed the appeal of Energa Operator S.A., the Court of Appeals in Warsaw announced a change in the sentence of the District Court in Warsaw dated 25 June 2008. Payment of PLN 46,232 thousand increased by interest and refund of proceedings' costs was adjudged against PKN ORLEN S.A. to the benefit of ENERGA OPERATOR S.A. On 30 September 2009 PKN ORLEN S.A. made the payment.

On 4 February 2010 the Company submitted an annulment. The annulment was accepted for recognition by the Supreme Court. On 28 January 2011 the Supreme Court after conducting annulment proceeding overruled the previous verdict and decided to revoke the claim to reexamination by the Court of Appeal, leaving them the decision about proceeding costs. In connection with the Supreme Court verdict, PKN ORLEN called on ENERGA – OPERATOR S.A. to return paid receivables by the Company based on the verdict of the Court of Appeals in Warsaw from 10 September 2009 in total amount of PLN 75,879 thousand. On 4 March 2011 ENERGA – OPERATOR S.A. repaid part of the claimed amount of PLN 30,163 thousand.

As at the date of publication of these foregoing financial statements the result of this case is unknown.

- **Court proceedings in which PKN ORLEN acts as an outside intervener**

In 2004 the District Court in Warsaw summoned PKN ORLEN as a co-defendant in a court case PSE – Operator S.A. (legal successor of PGE Polska Grupa Energetyczna S.A., former Polskie Sieci Elektroenergetyczne) against ENERGA – OPERATOR S.A.

In March 2008 the District Court in Warsaw pronounced its verdict according to which ENERGA – OPERATOR S.A. is to pay PSE the amount of PLN 62,514 thousand with interest and the amount of PLN 143 thousand as a refund of proceedings costs. ENERGA - OPERATOR S.A. appealed against the above verdict. Based on the legal opinion of an independent expert PKN ORLEN did not appeal. In its sentence dated 19 March 2009 the Court of Appeals declined the appeal of ENERGA-OPERATOR S.A. against the verdict of the first instance Court that sentenced the specified amount. The verdict in this case is already legally binding. The defendant submitted an annulment which on 5 February 2010 was accepted for recognition by the Supreme Court.

In its sentence dated 26 March 2010 the Supreme Court repealed the sentence and revoked it to reexamination by the Court of Appeals in Warsaw.

Court ruling will not result in liabilities directly on the side of PKN ORLEN, as PKN ORLEN acts only as an outside intervener in the case.

d) Anti-trust proceedings

Anti-trust proceedings concerns an allegation that:

- PKN ORLEN S.A. concluded an agreement with the LOTOS S.A. Group which limited competition on the domestic market of trading in universal petrol U95, initiated in March 2005. In December 2007, the Chairman of OCCP penalized PKN ORLEN S.A. and LOTOS Group for the participation in the above-described agreement. The fine imposed on PKN ORLEN S.A. amounted to PLN 4,500 thousand. PKN ORLEN S.A. appealed to the Court of Competition and Consumer Protection. On 6 May 2010 the Court of Competition and Consumer Protection issued a verdict, revoking the appeals of PKN ORLEN S.A and the LOTOS S.A. Group. On 12 July 2010 PKN ORLEN S.A. has issued an appeal against this verdict. On 11 February 2011 the Court of Appeals in Warsaw issued a verdict, revolving the appeals of PKN ORLEN S.A. and LOTOS Group.
- proceedings in connection with an allegation that in the years 2000-2004 PKN ORLEN S.A. was using practice limiting competition on the domestic market of trading in glycol by setting prices for “Petrygo” liquid to radiators which were inadequate compared to increase in price of glycol, instituted in March 2005. In December 2006 the Chairman of OCCP imposed a fine on PKN ORLEN S.A. of PLN 14 million. PKN ORLEN S.A. appealed against this decision. On 6 October 2010 the Court of Competition and Consumer Protection revolved the decision of the Chairman of OCCP regarding the alleged misuse of PKN ORLEN’s S.A. leading position on the glycol market and repealed the penalty imposed on PKN ORLEN S.A. The President of the OCCP has issued an appeal against this verdict. PKN ORLEN S.A. responded to the appeal of the OCCP Chairman. The Court of Appeal in Warsaw has not yet set a date of the next appeal proceeding.
- in the years 1996-2007 PKN ORLEN S.A., Petrol Station Kogut sp.j. and MAGPOL B. Kułakowski i Wspólnicy sp.j. were using practices limiting competition on the domestic market of wholesale of petrol and diesel oil by setting retail selling prices of petrol and diesel oil. The proceeding was instituted in July 2008. PKN ORLEN S.A. responded to allegations raised by the Chairman of the OCCP and filed a motion to issue a decision establishing a liability based on par. 12 of the competition and consumer protection act. Once the motion is adopted, the Chairman of the OCCP will not be able to impose a fine. On 16 July 2010 the President of the Office of Competition and Consumer Protection (“OCCP”) issued a decision, in which PKN ORLEN S.A. and Stacja Paliw Kogut Sp.j. were found guilty of participating till 16 July 2007 in anti-competition actions. The President of OCCP has imposed a fine on PKN ORLEN S.A. of PLN 52.7 million. On 2 August 2010 PKN ORLEN S.A. appealed from the decision of the President of the OCCP to the Court of Competition and Consumer Protection. The date of appeal proceeding has not been set yet.

e) Claims and court proceedings – Tankpol Sp. z o.o.

The court proceedings were instituted by Tankpol Sp. z o.o. (presently Tankpol – R. Mosio i Wspólnicy sp. j.). The claim concerns the return of 253 out of 470 shares in ORLEN PetroTank Sp. z o.o. that were transferred by Tankpol to PKN ORLEN S.A. as a security, based on the agreement dated 20 December 2002. The subjects of the security were receivables acquired by PKN ORLEN S.A. from ORLEN PetroTank Sp. z o.o. based on the trust receivable transfer agreement. The Court of Appeals in Warsaw pronounced that PKN ORLEN S.A. is obliged to transfer ownership of 26 shares in ORLEN PetroTank Sp. z o.o. to Tankpol R. Mosio i Wspólnicy sp.j. The verdict is binding in this respect. As a result of an annulment submitted by Tankpol R. Mosio i Wspólnicy sp. j. the case was revoked to reexamination in front of the District Court in Warsaw.

In its sentence dated 8 January 2010 the District Court dismissed the suit of Tankpol related to the return of 227 shares in ORLEN PetroTank. Tankpol appealed against the above sentence. On 21 January 2011 the Court of Appeal overruled the appeal of Tankpol. As at the date of publication of the foregoing financial statements, the verdict is legally binding, but an annulment regarding this verdict can be submitted.

39.2. Court proceedings in which PKN ORLEN acts as plaintiff

Arbitration proceedings against Yukos International UK B.V.

On 15 July 2009 PKN ORLEN S.A. submitted in the Court of Arbitration by the International Chamber of Commerce in London the request for arbitration proceedings against Yukos International UK B.V., seated in the Netherlands, in connection with transaction of purchase of AB ORLEN Lietuva (previously AB Mazeikiu Nafta) shares. Claims of PKN ORLEN concern inconsistency of Yukos International's statements with the actual state of AB ORLEN Lietuva at the closing date of the purchase of AB - Mazeikiu Nafta shares by PKN ORLEN S.A. Demands of PKN ORLEN concern reimbursement of the amount of USD 250 million deposited in the escrow account as a part of the payment for AB ORLEN Lietuva shares in order to secure the potential claims of PKN ORLEN towards Yukos International.

On 14 September 2009 Yukos International submitted to the Court of Arbitration by the International Chamber of Commerce a response to PKN ORLEN's request for arbitration proceedings. In its response Yukos International appealed to dismiss all PKN ORLEN's claims and adjudge it with proceeding costs refund.

On the first seating of the Arbitration Court, PKN ORLEN S.A. and Yukos International agreed i.a. proceedings schedule and extent of competence of the Court of Arbitration. On 3 May 2010, according to the schedule, PKN ORLEN S.A. issued a law suit in which it demands from Yukos International a reimbursement of USD 250 million with interest and costs of proceedings. On 31 December 2010 Yukos International submitted a response to the law suit, in which PKN ORLEN's claim was considered as unjustified and appealed for dismissal of all claim and for refund of proceeding costs. At present, the parties exchange correspondence regarding mutual disclosure of possessed documents. The Court of Arbitration in London hearing was set for the period: 28 November – 9 December 2011.

40. Significant events after the end of the reporting period

After the end of the reporting period there were no significant events that should be recognised in financial statement for 2010.

41. Factors and events that may influence future results

The Company has decided to terminate negotiations with Zakłady Azotowe Puławy S.A. in June 2010 regarding the process of sale of its 84.79% shares held in ANWIL S.A., due to sustaining differences of standpoints concerning price and non-price terms of transaction.

According to approved strategy, PKN ORLEN S.A. will continue operations connected with the sale of the ANWIL Group. As at 31 December 2010 total assets of the ANWIL Group amounted to PLN 2,645,389 thousand, equity amounted to PLN 1,993,931 thousand and net profit for the year ended 31 December 2010 amounted to PLN 46,114 thousand.

The Company started preparatory works concerning sales of shares in Polkomtel S.A.

42. Signatures of the Management Board Members

The foregoing unconsolidated financial statements were authorized by the Management Board of the Company in Warsaw on 29 March 2011.

………………………
Dariusz Krawiec
President of the Board

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Sławomir Jędrzejczyk
Vice-President of the Board

………………………
Wojciech Kotlarek
Member of the Board

……………………
Krystian Pater
Member of the Board

………………………
Marek Serafin
Member of the Board

Signature of a person responsible
for keeping accounting books

…………………………………..……

Rafał Warpechowski

Executive Director
Planning and Reporting